2005 Annual Report

Hi,

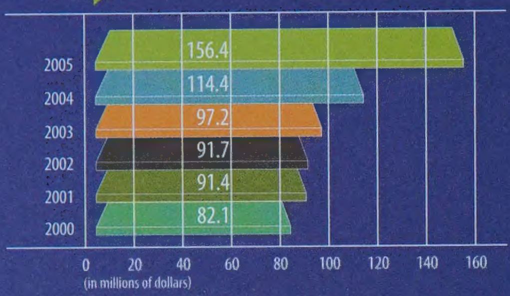
Know you're always looking for a great investment and this one's delivered for me.

E.

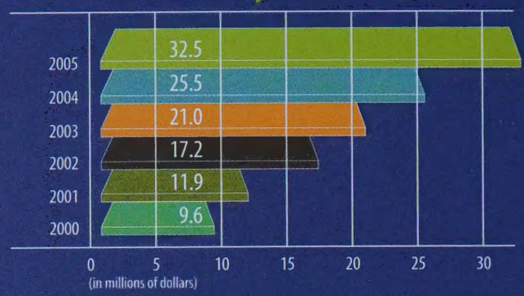
WE DELIVER

ARCTIC GLACIER INCOME FUND

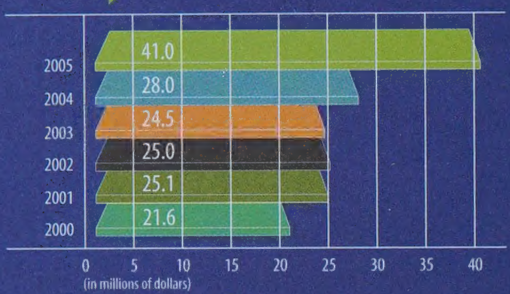
Sales



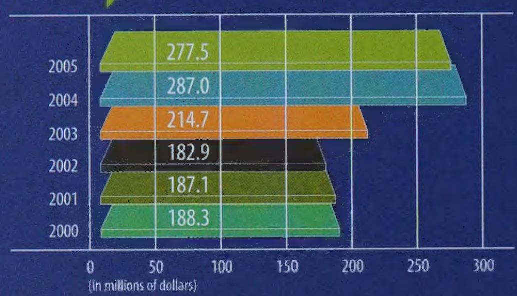
Funds from Operations



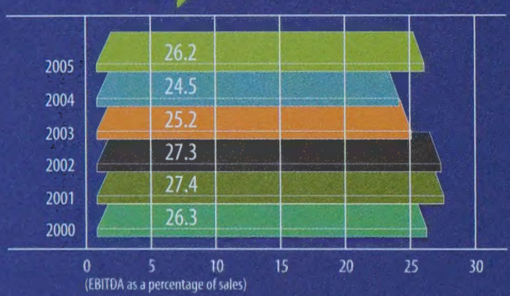
EBITDA



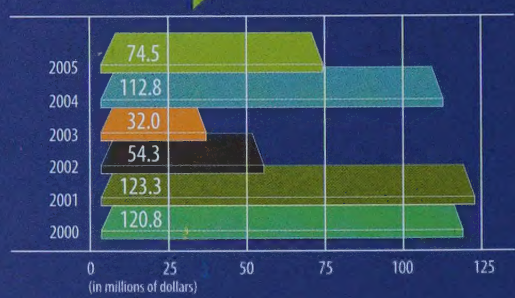
Assets



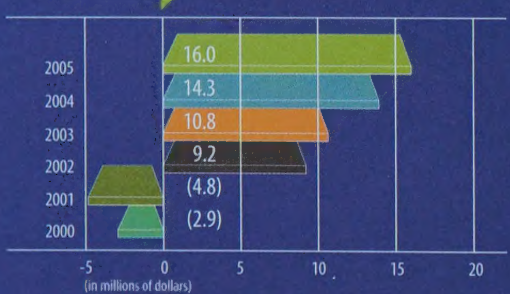
EBITDA Margin



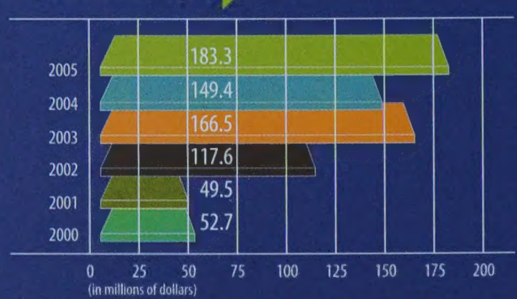
Long-term Debt



Net Earnings



Unitholders' Equity



2005 FINANCIAL HIGHLIGHTS

($000's, except as noted)	2005	2004	2003
Financial Results			
Sales	**156,439**	114,434	97,170
EBITDA	**41,013**	28,050	24,462
EBITDA margin, percent of sales	**26.2**	24.5	25.2
Earnings	**15,965**	14,301	10,764
Earnings per unit	**0.65**	0.61	0.59
Cash Flows			
Funds from operations	**32,498**	25,512	20,962
Distributable cash	**29,480**	22,291	17,794
Cash distributions	**27,262**	24,957	19,744
Payout ratio, percent	**92.5**	112.0	111.0
Distributable cash per unit	**1.20**	0.96	0.98
Cash distributions per unit	**1.10**	1.07	1.07
Financial Position			
Total assets	**277,517**	287,042	214,657
Total debt	**74,515**	112,804	32,045
Net debt (1)	**68,202**	98,049	21,013
Total equity	**183,256**	149,404	166,469
Units outstanding	**27,888**	23,350	23,275

(1) Long-term debt, obligations under capital leases and bank indebtness, net of cash and cash equivalents.

Arctic Glacier Income Fund, through its wholly owned operating company, Arctic Glacier Inc., is a leading manufacturer and distributor of premium quality packaged ice products. Arctic Glacier is the largest producer of packaged ice in Canada and is among the largest producers of packaged ice in the United States, servicing more than 53,000 retail, commercial and industrial customer locations

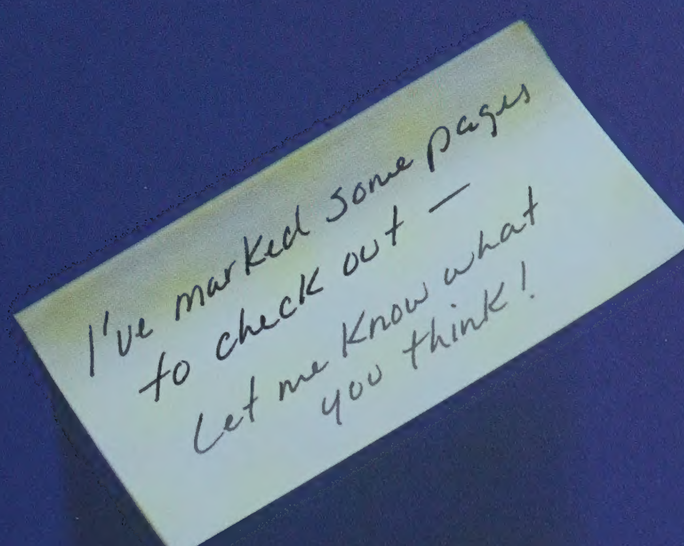
...ON OUR PROMISE

throughout six provinces in Canada and thirteen states in the central, midwest and northeastern U.S. From Arctic Glacier's head office in Winnipeg, the company operates 26 production and 41 distribution facilities and employs 800 people across North America.

The objectives of Arctic Glacier Income Fund are to generate stable cash distributions to unitholders and to grow distributable cash and distributions, increasing unitholder value over time.

COMPETITIVE STRENGTHS

- Quality product and respected brand
- Established market share in densely populated regions
- Markets geographically diversified across North America
- Proven abilities in acquisition and integration
- Sustainable annual revenues and cash flow
- Track record of profitable growth
- Strong balance sheet and solid financial position



Arctic Glacier Income Fund gained financial strength and enhanced operating efficiencies through the measured and committed execution of our growth strategy in 2005.

This strategy allowed us to

DELIVER ON OUR PROMISES TO INVESTORS

The Fund:

> Enlarged its operational platform;
> Reduced balance sheet leverage;
> Improved the payout ratio;
> Broadened operating margins; and,
> Increased monthly cash distributions to unitholders.

ROBERT J. NAGY
President and CEO

The Fund's expansion is principally based on accretive acquisitions in key market areas, followed by rationalization and integration measures to streamline operations and improve margins.

These activities during 2005 originated in the final week of December 2004, when Arctic Glacier acquired Losquadro Ice to become the market leader for packaged ice products in New York City, Long Island and northern New Jersey. Seven days later, the Fund acquired Party Time Ice of Port Huron to become the market leader and largest ice producer in Michigan. During 2005 these operations contributed to results for a full year, and they account for most of the performance gains. In mid September the Fund acquired the assets of the ice division of Hometown Inc. of Milwaukee, Wisconsin. This strategic initiative established a new operations platform for eastern and central Wisconsin and made Arctic Glacier the market leader and largest ice producer in the state.

These accretive acquisitions increased our market penetration and broadened our distribution base in the northeast, midwest and central United States, in regions that are geographically contiguous to our existing operations.

Over the longer term, these acquisitions benefit the Fund in several ways. From a financial standpoint they strengthen cash flows and add to the reliability of distributions. In addition, they increase Arctic Glacier's market strength by expanding geographical influence and adding significantly to revenue growth. They also contribute to risk reduction by distributing revenue generation over a broader market area, as well as providing a stronger base from which to continue growth.

The Fund generated distributable cash of $29.5 million during 2005, an increase of 32% over the previous year. This growth was largely due to the contributions of the Losquadro and Party Time acquisitions. Another factor was a return to more favorable weather conditions across many of the Fund's markets during the key summer months when demand is strongest. On a per unit basis, distributable cash totaled $1.20 for the year, up 25% from the previous year. I am confident the Hometown Ice acquisition will be accretive to distributable cash per unit during its first full year of operation in 2006, and that total distributable cash generated this year will exceed distribution requirements.

The Fund was also active in Canada's capital markets in 2005. We raised a total of $48.0 million by issuing units in two ways: $47.1 million from a public offering and $0.9 million from the Distribution Reinvestment and Optional Cash Purchase Plan (DRIP). The proceeds from the public unit offering were the result of the sale of 4.45 million units at $11.25 per unit, less $3.0 million in underwriters' fees and other costs. These funds were used to purchase Hometown Ice and to reduce long-term debt and other obligations.

Because of the Fund's strong financial position and sound growth strategy, Arctic Glacier is well positioned to continue acquiring, rationalizing and integrating high-potential companies into our operations. In this way we intend to build on our success in increasing margins over the past year, thereby increasing distributable cash to our unitholders in 2006.

Our senior management team has a successful track record of integrating operations and improving margins by improving productivity, reducing costs and introducing new technologies. At the same time, we are investing in enhancing product quality to develop new pricing opportunities, increase our market share, and expand the market for our products.

The North American packaged ice industry is serving a customer base that continues to consolidate. National and multi-regional chains are supplanting the traditional single-outlet supermarket or convenience store. From our well-established platforms in such key markets as New York, Michigan and Pennsylvania, we intend to increase our brand penetration in response to these changing market conditions.

As the larger retail operations move to deal with fewer, larger suppliers capable of meeting their expanding demand for service and technological support, Arctic Glacier stands ready to meet that demand with high-volume production facilities, advanced technologies and a modern fleet of refrigerated vehicles with broad geographic reach.

In all of our growth initiatives, we are guided by a strong commitment to maximize the synergies between our established platforms and new acquisitions in a manner that brings additional value to our unitholders in the form of stable, steadily growing cash distributions.

Every potential acquisition is evaluated carefully for its financial strength, geographic proximity to existing operations and probable accretive value to the Fund as a whole. We will concentrate our efforts on those opportunities where Arctic Glacier can build a leading market position that will provide superior value to all its stakeholders.

Our overriding objective is simple: to create unitholder value in everything we do. We believe 2006 will be another year in which that objective will be met.

In closing, I would like to thank our customers, trustees, employees and unitholders for their trust and steady support in a time of great opportunity.

Margin Improvement

Improving margins leads directly to increases in distributable cash. Arctic Glacier accomplishes this by rationalizing production, distribution and administration infrastructure of acquired operations. We also make investments in product quality, which provide pricing opportunities as well as the prospect of increasing both market size and market share.

In 2005, Arctic Glacier completed a number of initiatives aimed at increasing margins. The Company:

> Completed construction of a new 380-ton production plant with advanced product drying and automatic palletization equipment, located in Newburgh, New York;

> Expanded production capacity at the Twin Oaks, Pennsylvania plant, representing the first of two phases of a plant upgrade;

> Closed three small and inefficient leased production plants in Kiamesha Lake, New York, Hatfield, Pennsylvania and Maple Grove, Minnesota;

> Converted a small, inefficient production plant in Roselle Park, New Jersey into a distribution center;

> Completed the integration of Losquadro Ice, Party Time Ice and Hometown Ice operations and administration, including implementation of our computerized hand-held billing and route management system; and,

> Reduced staff counts in all acquired operations.

Arctic Glacier has a production capacity of up to 5,400 tons of packaged ice daily at 26 production plants. It is delivered from those plants and 41 distribution centers to our 53,000 retail, commercial and industrial customer locations. Over the past four years, Arctic Glacier has increased daily manufacturing capacity by 107% and the number of manufacturing plants by 63% (see figures below).

Also during the year, Arctic Glacier evaluated the results of testing re-closeable packaging in one of its key markets. We decided not to continue, given that pricing opportunities did not exceed costs in that market at this time. Arctic Glacier may introduce the consumer friendly packaging in other markets in the future if there is increased customer acceptance.

We continue to focus on margin improvement through rationalization of all acquired assets as well as enhanced customer service.

Operations

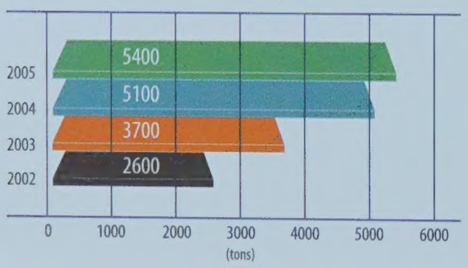
In late 2004 Arctic Glacier established a strong market presence in Michigan, including the densely populated Detroit market, with the acquisition of Party Time Ice. We also expanded our market presence in the northeastern U.S. with the acquisition of Losquadro Ice in the key New York City market. We continued our growth in September with the acquisition of Hometown Ice of Milwaukee, Wisconsin, extending Arctic Glacier's market coverage eastward from our strong base of operations in the north-central U.S.

These acquisitions are key steps in increasing market penetration and broadening the distribution base in the northeast, midwest and central U.S. The Losquadro and Party Time operations were accretive to distributable cash in 2005 and management believes that the Hometown operations will be accretive in 2006, the first full year of operations. These acquisitions are further illustrations of Arctic Glacier's strategic approach to growth through geographically contiguous transactions.

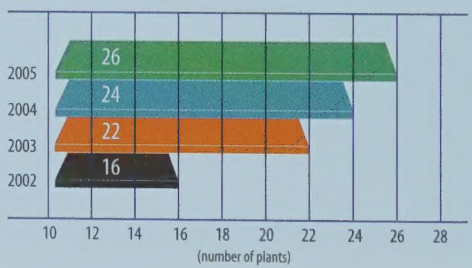
Arctic Glacier currently has eight franchisees, with two in the northeastern U.S., five in the central U.S. and one in Canada. Arctic Glacier did not sign any new franchise agreements in 2005. Instead, we focused efforts on acquiring new platform operations in key markets and expanding the Company's brand presence through the New York City, New Jersey and Michigan markets.

We saw a return to more normal weather for the year in most of the markets serviced by Arctic Glacier. This was a marked improvement from the colder-than-average conditions across much of North America during the same period in 2004. The Fund's geographic diversity was evident by the impact of weather during the key summer months. Markets in eastern Canada, Michigan and parts of the northeastern U.S. benefited from strong sales as a result of favorable weather. Our central U.S. markets saw conditions that were near normal, while western Canada had less than favorable weather during most of the summer season. The Fund also benefited from increased shipments into the hurricane-affected areas in the U.S. Gulf Coast states.

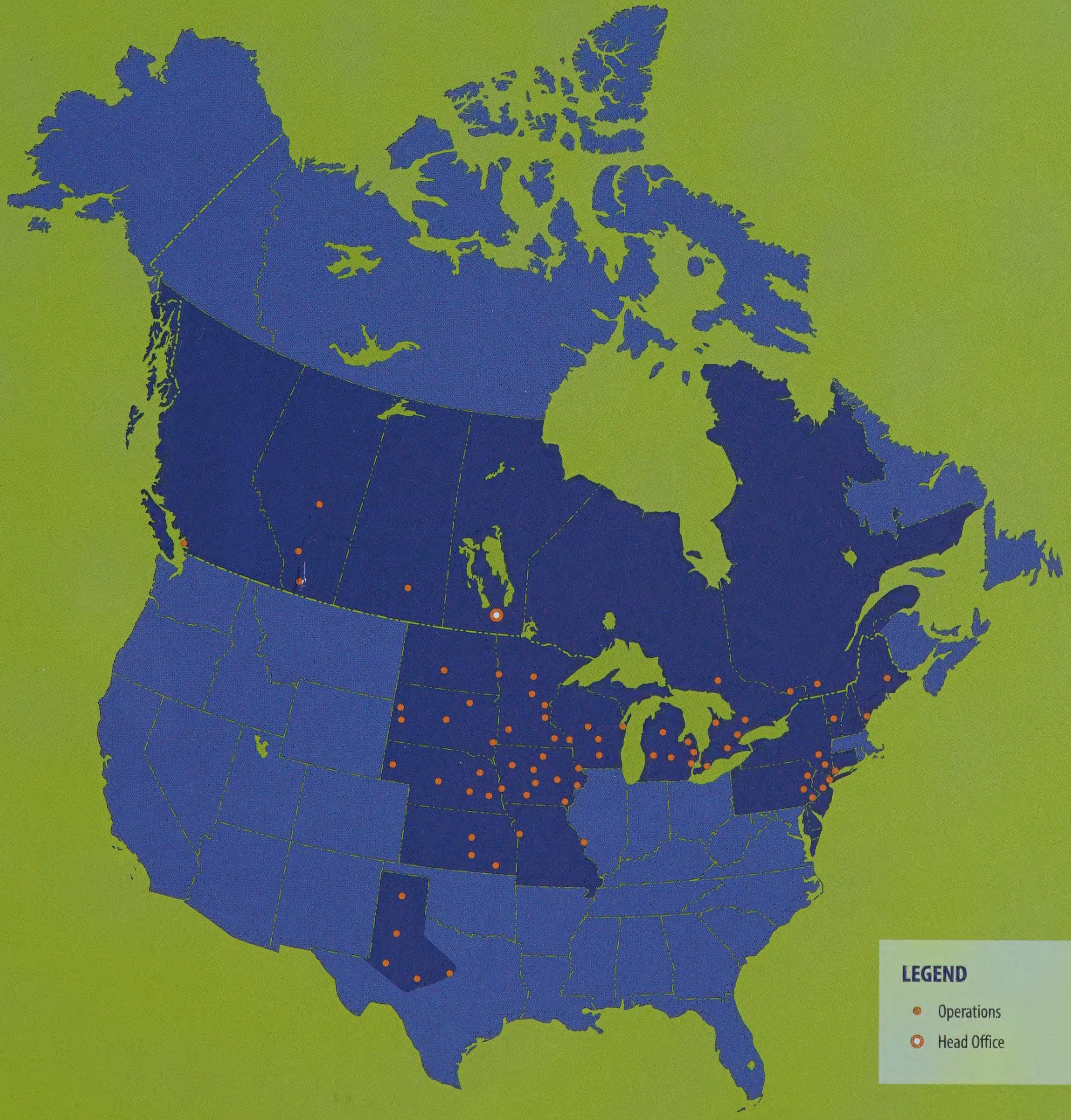
Daily Production Capacity



Production Plants



MAP OF OPERATIONS



LEGEND

- Operations
- Head Office

2005 OPERATIONS

CHATHAM, ON

TORONTO, ON

TORONTO, ON

YPSILANTI, MI

On behalf of the board of trustees, I am pleased to report that 2005 was a highly successful year for the Arctic Glacier Income Fund. We set new records of financial performance, significantly reduced debt and increased monthly cash distributions to unitholders to an annual rate of $1.10 per unit. Throughout this period, the Fund continued to successfully execute its strategy of achieving both accretive and internal expansion through acquisition and integration activities, coupled with ongoing attention to cost control.

JAMES E. CLARK
Chairman

As a result, distributable cash increased by one-third to $1.20 per unit from $0.96 last year, and the payout ratio improved to 92.5% from 112.0%. This has further enhanced the Fund's ability to pay monthly distributions from cash flow, while meeting debt obligations and maintaining a strong financial position for further growth.

These achievements were attributable to many factors: sound management, a well-executed growth strategy and a strong commitment to the highest standards of corporate governance.

In particular, a significant contributor to the Fund's continuing success has been the effective, open and active working relationship between the board of trustees and the Fund's management team. The board maintains its independence and objectivity as guidance and counsel is provided to management in an open and supportive manner.

In my role as non-executive chairman, I have seen the mutual respect and commitment to unitholders that characterizes every aspect of the dealings of the board and the management team in pursuit of growth and new opportunities.

I would like to thank my fellow trustees for their contributions to the Fund's high standards of governance. I am also grateful for the skill and enthusiasm of Arctic Glacier's senior management in executing our demanding growth strategy, and our employees in carrying out their responsibilities. In addition, the Fund has benefited tremendously from the loyalty of its unitholders and the support of its customers across North America. My thanks to you all.

In the coming year, the board of trustees and management will continue to investigate growth opportunities and introduce new operating efficiencies. Through prudent financial and operational management, we are confident that Arctic Glacier Income Fund will continue to deliver on the promise to create value for its unitholders.

At Arctic Glacier Income Fund, sound corporate governance has always been essential in developing investor confidence and increasing unitholder value. Transparency, sound corporate ethics and discipline ensure compliance with the changing regulatory environment and allow anticipation and implementation of best practices as they evolve. Our governance system defines fundamental relationships among members of the board of trustees, management, unitholders and other stakeholders. It defines the framework in which ethical values are established and the context in which corporate strategies and objectives are set.

Our board is led by an independent chairman and experienced trustees, who give priority to strategic planning objectives, ensure corporate standards are implemented to guide ethical behavior throughout the organization, and continuously work to improve our governance practices. Our high standard of corporate governance ensures we retain the confidence of our unitholders and support the board's ability to supervise management and enhance long term unitholder value.

Regulatory Compliance

Canadian securities regulators have recently adopted revised corporate governance guidelines, audit committee rules and corporate governance disclosure rules. As new rules are implemented with respect to corporate governance, disclosure and responsibility, the Fund intends to continue to adopt best practices in such areas as they may develop. A detailed description of our corporate governance practices, including disclosure required by the disclosure rules, are provided in the Management Information Circular pertaining to the 2006 annual meeting of unitholders. It is available on the Fund's website at: **www.arcticglacierinc.com** and on the internet at: **www.sedar.com.**

The Role of the Board of Trustees

The board's role is to safeguard and advance the interests of Arctic Glacier Income Fund and its unitholders. The board has a written charter setting out its role and key functions, its primary responsibility being to provide governance and stewardship to the Fund.

The board has appointed an executive management team to oversee the day-to-day operations of the Fund. The board oversees and reviews management decisions and ensures the adequacy of systems and controls and the implementation of policies. Details of these activities are set out in the board's charter, including the board's involvement in the strategic planning process, identification and management of risk, succession planning, communications and public disclosure, internal controls and governance. The charter of the board is reproduced in the Management Information Circular and at: **www.arcticglacierinc.com.**

The board fulfills its mandate directly and through the committees of the board.These include the Audit Committee, Compensation Committee and Corporate Governance Committee. Charters of the committees are available at: **www.arcticglacierinc.com.**

Board Independence

The Fund is subject to guidelines, requirements and rules governing independence of board and committee members, including the governance guidelines, the audit committee rules and the disclosure rules. We conform to the standards regarding director independence in the governance guidelines. More detailed information on the independence of individual trustees, including disclosure required by the disclosure rules, is provided in the circular.

An independent trustee acts as chairman of the board and as chair of each of the committees of the board. The independent chairman facilitates full and candid discussion of matters coming before the board and ensures that the board functions independently of management. All members of the Audit Committee, Compensation Committee and Corporate Governance Committee are independent.

Board Assessment

The board annually evaluates performance and effectiveness of each board member and members of each of its committees. The evaluation process requires that the Corporate Governance Committee assess the contribution of each trustee and the effectiveness of the board and each of the committees of the board. This process covers operation of the board and its committees, the adequacy of information provided to trustees, board structure, agenda planning for board meetings, effectiveness of the chairman of the board in managing board meetings, strategic direction and process. Each year the board assesses the performance of the chairman of the board and reviews the results with the chairman.

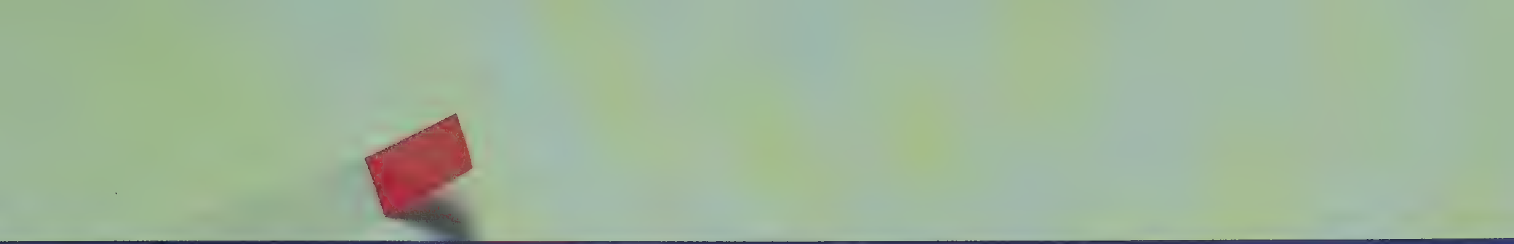
Annual Meeting

Unitholders are invited to attend our annual meeting at 4:00 p.m. (Central Daylight Time) on Thursday, April 27th, 2006 to be held in the Wellington Board Room of The Fairmont Winnipeg at Two Lombard Place, Winnipeg, Manitoba.

Corporate Governance at Arctic Glacier Income Fund

For more details regarding corporate governance at Arctic Glacier Income Fund, please see our website at: **www.arcticglacierinc.com**, where the following documents are posted:

- The Management Information Circular which contains background information for each nominee for the board of trustees, and a complete discussion of our corporate governance practices.
- The written charters of the board of trustees and each of the committees of the board.
- The Board Code of Conduct.
- The Employee Code of Conduct.



INCOME FUND TRUSTEES

JAMES E. CLARK CHAIRMAN OF THE BOARD

Mr. Clark is President and a director of Jecco Properties Ltd., a Vancouver-based real estate investment and development company and Moray Channel Enterprises Ltd., a marina development and management company. He was a founder of The Arctic Group Inc. in 1996 and has been a participant in the packaged ice industry for more than 20 years.

Mr. Clark has been Chairman of the Fund since May 2003 and previous to that, was Vice Chair and lead outside trustee since the Fund's inception in 2002. He has been a director or principal of Arctic Glacier Inc. and its predecessor companies since 1989. Mr. Clark is a member of the Audit Committee and Compensation Committee.

THE HONOURABLE GARY A. FILMON, P.C., O.M. VICE CHAIRMAN

Mr. Filmon is Vice Chairman of Wellington West Capital Inc. of Winnipeg. He is a director of Manitoba Telecom Services Inc., Canadian Natural Resources Limited and FWS Construction, a trustee of Pollard Banknote Income Fund and Chairman and a trustee of Exchange Industrial Fund. Mr. Filmon is Chairman of Canada's Security and Intelligence Review Committee. He was Premier of the Province of Manitoba from 1988 to 1999.

Mr. Filmon has been Vice Chairman of the Fund since May 2003 and a trustee since its inception in 2002. He was a director of The Arctic Group Inc. from 2000 to 2002. Mr. Filmon is Chair of the Audit Committee and a member of the Corporate Governance Committee.

ROBERT J. NAGY PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mr. Nagy is President and Chief Executive Officer of Arctic Glacier Inc. He was a founder of The Arctic Group Inc. in 1996 and a principal of a number of predecessor companies since 1986. Mr. Nagy has more than 30 years in the industry and brings extensive strategic and operational experience to his role as architect and leader of Arctic Glacier's acquisition and product branding strategies.

Mr. Nagy has been Chief Executive Officer since 1996 and added the title of President in August 2002. He has been a trustee of the Fund since its inception in 2002 and was Chairman until May 2003. Mr. Nagy was Chairman of the Board of The Arctic Group Inc. from 1996 to 2002.

PETER S. HYNDMAN

Mr. Hyndman is Counsel at Fasken Martineau DuMoulin LLP, Barristers and Solicitors in Vancouver. He has served as a director and corporate secretary for a number of major Canadian public and private companies, several with extensive cross-border activities and has a particular interest in emerging corporate governance issues. Mr. Hyndman was an elected member of the British Columbia Legislature from 1979 to 1983 and served as Minister of Consumer and Corporate Affairs during two years of that term. He has also served as a Governor of the Business Council of British Columbia.

Mr. Hyndman has been a trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 1996 to 2002. Mr. Hyndman is Chair of the Corporate Governance Committee and a member of the Audit Committee and Compensation Committee.

DAVID R. SWAINE

Mr. Swaine has been President of Roynat Business Capital Inc. in Charlotte, North Carolina, since October 2003. He was Executive Vice President and Chief Operating Officer and a director of Roynat Inc. of Toronto from July 1994 until October 2003.

Mr. Swaine has been a trustee of the Fund since its inception in 2002 and previously was a director of The Arctic Group Inc. from 1999 to 2002. Mr. Swaine is Chair of the Compensation Committee and a member of the Corporate Governance Committee.

Management's DISCUSSION & ANALYSIS

of Operating Results and Financial Position
for the year ended December 31, 2005

Management's Discussion and Analysis ("MD&A") of operating results and financial position of Arctic Glacier Income Fund (the "Fund") is provided to enable readers to assess the financial condition, material changes in financial condition, results of operations, cash flows, liquidity and capital resources of the Fund for the year ended December 31, 2005 and in comparison to the preceding year. This MD&A has been prepared taking into account material events up to March 3, 2006, and should be read in conjunction with the consolidated financial statements of the Fund and related notes that are included in this report.

Additional information relating to the Fund, including the 2005 Annual Information Form, is available free of charge at: **www.arcticglacierinc.com.**

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Forward-Looking Statements

This annual report contains forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and its subsidiaries. Forward-looking statements typically contain words such as "anticipates", "believes", "continue", "could", "expects", "indicates", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including risks associated with weather conditions, the impact of seasonality on labor and distribution, competition, compliance with government regulations, currency risk, dependence on key personnel, product liability, environmental risk, risks associated with acquisitions, expansion into the United States, effects of price changes in raw materials, restrictions on potential growth and debt refinancing. Although the forward-looking statements contained in this annual report are based upon what management believes to be reasonable assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. These forward-looking statements are made as at the date of this annual report, and the Fund assumes no obligation to update or revise them, either publicly or otherwise, to reflect new events, information or circumstances.

"The Fund's accretive acquisitions have broadened Arctic Glacier's geographic coverage, increased our customer base and strengthened the Fund's financial platform for further growth."

KEITH W. McMAHON, CA
Executive VP and CFO

OVERVIEW

Arctic Glacier Income Fund (the "Fund"), through its wholly-owned operating company, Arctic Glacier Inc. ("Arctic Glacier" or the "Company"), is a leading manufacturer and distributor of premium quality packaged ice products. Arctic Glacier is the largest producer of packaged ice in Canada and is among the largest producers of packaged ice in the United States, servicing more than 53,000 retail, commercial and industrial customer locations throughout six provinces in Canada and thirteen states in the central, midwest and northeastern United States from 26 production and 41 distribution facilities.

Arctic Glacier's primary product is packaged ice, marketed under the brand name Arctic Glacier® Premium Ice. Packaged ice for human consumption is sold in various package sizes ranging from two kilograms to 20 kilograms in Canadian markets and five to 40 pounds in United States markets. Packaged ice products are sold to retail customers, such as supermarket grocery stores and convenience stores, and to a variety of commercial users including airlines, bakeries and meat processors. Arctic Glacier also sells ice in bulk containers primarily to poultry processors, the commercial fishing industry, chemical plants and the construction industry.

Arctic Glacier also sells other products such as bottled water, dry ice, packaged wood, rock salt and sales and leasing of ice-making and dispensing equipment in certain markets. Sales of these ancillary products currently represent approximately 10% of total annual sales.

BUSINESS ENVIRONMENT

With roots going back as far as 1882 in Western Canada, Arctic Glacier has built a strong and loyal customer base in Canada and the central, midwest and northeastern United States, and has clearly set itself apart as a leader in the North America packaged ice industry. Some of the key characteristics of the packaged ice industry include:

> Highly fragmented, consisting of a handful of large multi-regional manufacturers and hundreds of small, independent, family-owned businesses operating in local markets;

> Significant barriers to entry, with a requirement for substantial start-up capital to build the infrastructure to be a significant competitor, and limited ability to secure the larger national and regional accounts from established competitors;

> Limited consumer price sensitivity, resulting from a relatively low product cost and a lack of substitute products; and,

> Highly seasonal, characterized by peak demand and cash flow during the warmer months of May through September each year and more limited demand and cash flow during the remainder of the year.

In addition to these characteristics, there are two more recent trends that affect the North American packaged ice industry. The first trend involves the industry's customer base, which is continuing to consolidate and seek fewer but larger suppliers with the capabilities to meet their increasing service and technology demands. National and multi-regional grocery and convenience store chains are gradually replacing the traditional single outlet supermarkets and convenience stores that used to dominate the retail landscape. While the packaged ice industry remains highly fragmented, it is facing increasing pressure to consolidate in order to service customers on a regional or national basis. Arctic Glacier is well positioned to capitalize on this trend. High-volume production facilities and a large fleet of refrigerated vehicles enable us to offer industry leading service levels to regional chains and entire regions of national chains. In addition, our significant investment in advanced technology such as our computerized hand-held billing and routing system, advanced data communication channels and integrated information systems enable us to meet the demands of larger technologically-advanced customers for automated electronic billing and payment capability.

The second trend involves the increased consumer focus on health and the safety of the products consumed and used. Water quality and safety have become increasingly important to today's consumer. Arctic Glacier has witnessed an increased focus by retailers and food processors on quality standards as they seek to reduce the risk of manufacturing and selling substandard or unsafe products to consumers. Arctic Glacier has made significant investments in integrated water filtration and sterilization systems, and has rigorous quality testing standards that exceed ice industry benchmarks, positioning it to capitalize on this trend.

STRATEGY

The Fund's key objective is to ensure a long-term business enterprise providing superior value to all stakeholders by generating stable cash distributions to unitholders and by growing distributable cash and distributions. In order to accomplish this, Arctic Glacier has developed a long-term strategy to capitalize on the current business environment and industry trends, the Fund's financial strength and access to capital, and the critical mass that Arctic Glacier has attained. The strategy is designed to take advantage of an experienced senior management team that has a strong track record of acquiring and integrating accretive acquisitions and the skills and efforts of our dedicated staff. The strategy plays a critical role in determining what markets we will operate in and in allocating time and resources between major growth initiatives. The long-term strategy consists of three core elements:

Growth through Acquisition

Acquisitions within the highly fragmented ice industry constitute the most rapid and effective vehicle for significant growth of distributable cash. Arctic Glacier's acquisition strategy in any given market has two key phases – firstly to acquire the leading manufacturer and distributor in a market area to use as a platform, and secondly to purchase smaller competitors in that market and integrate them into the platform.

In late 2004 and in 2005, Arctic Glacier completed three major platform acquisitions:

> **December 23, 2004 –** Losquadro Ice of New York City, establishing Arctic Glacier as the market leader throughout New York City and Long Island, as well as in northern New Jersey.

> **December 30, 2004 –** Party Time Ice of Port Huron, Michigan, the market leader and largest ice producer in Michigan.

> **September 16, 2005 –** Hometown Ice of Milwaukee, Wisconsin, the market leader and largest ice producer in Wisconsin. This acquisition established a new platform of operations in eastern and central Wisconsin, and is a natural complement to the existing core of operations in adjacent Minnesota and Iowa.

These acquisitions are key steps in increasing market penetration and broadening the distribution base in the northeast, midwest and central United States through geographically contiguous acquisitions. The Losquadro and Party Time operations were accretive to distributable cash in 2005 and management believes that the Hometown operation will be accretive in 2006, the first full year of operations.

Margin Improvement

Improving margins leads directly to increases in distributable cash. Arctic Glacier accomplishes this through rationalizing the production, distribution and administration infrastructure of acquired operations and through investments in product quality, which provide pricing opportunities as well as the prospect of increasing both market size and market share. Arctic Glacier has an experienced senior management team with a proven track record of integrating acquired operations and improving operating margins.

In 2005, Arctic Glacier completed a number of initiatives that will result in increased margins:

> Closed small, inefficient leased production plants in Kiamesha Lake, New York, Hatfield, Pennsylvania and Maple Grove, Minnesota;

> Converted a small, inefficient production plant in Roselle Park, New Jersey into a distribution center;

> Completed construction of a new production plant with advanced product drying and automatic palletization equipment, located in Newburgh, New York;

> Expanded production capacity at the Twin Oaks, Pennsylvania plant; representing the first of two phases of a plant upgrade; and,

> Completed the integration of Losquadro Ice, Party Time Ice and Hometown Ice operations and administration, including implementation of our computerized hand-held billing and route management system; and,

> Reduced staff counts in acquired operations.

Also during the year, Arctic Glacier evaluated the results of testing re-closeable packaging in one of its key markets and decided not to continue given that pricing opportunities did not exceed the incremental costs in that market at this time. Arctic Glacier may introduce the consumer friendly packaging in other select markets in the future if there is increased customer acceptance.

Brand Development

A key element of further developing brand awareness and market penetration of Arctic Glacier® Premium Ice is expansion of this brand into new markets through acquisitions and the Company's franchising program. The franchising program allows independent ice producers that meet our strict quality standards to become licensees and package their products under the brand name Arctic Glacier® Premium Ice, marketing and distributing them in an exclusive territory. The program permits expansion with limited capital requirements, and broadens the geographic presence of our branded product into markets we would not otherwise be in. Franchising provides a financial return through a per-bag royalty, and a right of first refusal on the purchase of the business should the existing owners wish to sell.

Arctic Glacier currently has eight franchisees, with two in the northeastern U.S., five in the central U.S. and one in Canada. Arctic Glacier did not sign any new franchise agreements in 2005, instead focusing efforts on acquiring new platform operations in key markets and expanding the brand presence through the New York City, New Jersey, Michigan and Wisconsin markets.

ACQUISITIONS

In the last few days of 2004 and in 2005 Arctic Glacier completed three acquisitions involving 17 companies:

> On December 23, 2004, Arctic Glacier acquired the assets and operations of five companies operating as Losquadro Ice of New York City for initial consideration of $12.3 million (U.S. $10.3 million) including $1.0 million (U.S. $0.8 million) of deferred consideration that was to have been paid over a five year period. In addition, the sellers could qualify to earn additional consideration of up to U.S. $3.3 million, contingent upon performance in 2005 and 2006. In December 2005, certain terms of the purchase agreement were amended in order to facilitate a reduction in annual operating costs. Under the terms of the amended purchase agreement, the performance-based earn-out payments were replaced with non-contingent payments in 2006 and 2007 totaling U.S. $2.9 million and the payment of a portion of the deferred consideration was accelerated to 2006. This acquisition, with annual sales of approximately $10 million, was instrumental in expanding Arctic Glacier's market area in the northeast U.S., and has established Arctic Glacier as the market leader throughout New York City and Long Island, and in northern New Jersey.

LOSQUADRO ICE

Sales $10 Million

Markets – Brooklyn, Queens, Long Island, northern New Jersey

Production Plants – Brooklyn NY, Roselle Park NJ

> On December 30, 2004, Arctic Glacier acquired 100% of the common stock of four companies and the assets and operations of seven companies operating as Party Time Ice of Port Huron, Michigan for initial consideration of $37.7 million (U.S. $31.4 million) including $0.7 million (U.S. $0.6 million) of deferred consideration to be paid over a five year period. In addition, the sellers could qualify to earn additional consideration of up to U.S. $3.0 million contingent on performance. The Party time acquisition, with combined annual sales of $20 million, was key to establishing Arctic Glacier as the market leader and largest packaged ice supplier in the Michigan market.

PARTY TIME ICE

Sales [illegible]

Markets – Michigan

Production Plants – Port Huron, Belding, Grayling MI

Distribution Plants – 6 throughout Michigan

HOMETOWN ICE

Sales $10 Million

Markets – Wisconsin

Production Plants – Madison, Neenah, Sturgeon Bay WI

Distribution Plants – Wausau WI

> On September 16, 2005, Arctic Glacier acquired the assets of the ice products division of Hometown Inc., of Milwaukee, Wisconsin for cash consideration of $7.4 million (U.S. $6.3 million). This acquisition, the largest ice company in Wisconsin with annual sales of $10 million, establishes a new platform of operations in eastern and central Wisconsin, which is a natural complement to our core of operations in adjacent Minnesota and Iowa.

These acquisitions are key steps in increasing market penetration and broadening the distribution base in the northeast, midwest and central United States through geographically contiguous acquisitions. The Losquadro and Party Time operations were accretive to distributable cash in 2005 and management believes that the Hometown operation will be accretive in 2006, the first full year of operations.

REVIEW OF OPERATIONS

Summary of Financial Results

($mlns, except percent and per unit data)	2005	2004	2003
Sales	**156.4**	114.4	97.2
EBITDA	**41.0**	28.0	24.5
EBITDA margin, percent of sales	**26.2**	24.5	25.2
Earnings	**16.0**	14.3	10.8
Earnings per unit (basic and diluted)	**0.65**	0.61	0.59
Total assets	**277.5**	287.0	214.7
Long-term debt	**74.5**	112.8	32.0

Highlights of 2005

The Fund had significant success in 2005 executing its key strategies:

> Acquired Hometown Ice, the market leader in Wisconsin;

> Built a new production plant in Newburgh NY;

> Closed leased production plants in Kiamesha Lake NY, Hatfield PA and Maple Grove MN;

> Converted Roselle Park NJ plant into a distribution center;

> Successfully completed $50 million unit offering and reduced debt levels;

> Extended the maturity date of the revolving term credit facility to January 2009;

> Increased sales $42.0 million or 37% and EBITDA $13.0 million or 46%;

> Increased EBITDA margins by 7%;

> Increased earnings $1.7 million or 12%; and,

> Increased distributable cash $7.2 million or 32% and lowered payout ratio to 92.5%.

Non-GAAP Financial Measures

EBITDA and distributable cash are not recognized measures under Canadian generally accepted accounting principles (GAAP). EBITDA is defined as earnings before interest, taxes, amortization and non-recurring expenses including acquisition integration charges. EBITDA is a performance measure used by many investors to provide an indication of cash available for distribution from ongoing operations prior to debt service, capital expenditures and income taxes and is often used to compare companies and income trusts on the basis of ability to generate cash from ongoing operations. Distributable cash is a performance measure used by many investors to summarize the funds available for distribution to unitholders in an income trust.

Investors should be cautioned that EBITDA and distributable cash should not be construed as alternatives to net income, cash from operations or other financial measures determined in accordance with GAAP as indicators of the Fund's performance. The Fund's method of calculating EBITDA and distributable cash may differ from other companies and income trusts and, accordingly, may not be comparable to measures used by them.

The following is a reconciliation of EBITDA to earnings as calculated in accordance with GAAP:

(thousands)	2005	2004
Earnings	$ 15,965	$ 14,301
Add: Income tax expense (reduction)	(1,629)	(242)
Amortization	18,089	12,044
Interest	6,907	1,784
Acquisition integration expenses	1,489	462
Loss (gain) on disposal of property, plant & equipment	55	(286)
Loss (gain) on foreign exchange options	137	(1,235)
Non-recurring expenses including debt settlement costs and reduction in cumulative translation adjustment	–	1,222
EBITDA	$ 41,013	$ 28,050

Distributable Cash

The Fund generated distributable cash totaling $29.5 million during 2005, an increase of $7.2 million or 32% compared to 2004. The increase is primarily driven by increased volumes that accompanied a return to more favorable summer weather conditions in 2005, the contribution of the Losquadro and Party Time acquisitions during their first full year of operations, and reduced tax leakage. On a per unit basis, distributable cash totaled $1.20 during 2005, an increase of $0.24 or 25% compared to $0.96 in 2004.

Management is confident that recent acquisitions will be accretive to distributable cash per unit in 2006, and that the Fund will continue to generate sufficient cash in 2006 to exceed the current distribution rate.

(thousands, except percent and per unit data)	2005	2004
Cash from operating activities	$ 29,567	$ 27,030
Adjustments for:		
Changes in working capital items	2,931	(1,518)
	32,498	25,512
Less sustaining capital expenditures, net of dispositions	(3,018)	(3,221)
Distributable cash	$ 29,480	$ 22,291
Weighted average number of units	24,650	23,312
Distributable cash per unit	$ 1.20	$ 0.96
Distributions declared	$ 27,262	$ 24,957
Distributions declared per unit	$ 1.10	$ 1.07
Payout ratio	92.5%	112.0%

Distributions

The trustees of the Fund declare cash distributions on a monthly basis, payable to unitholders of record on the last business day of each month and paid within 15 days following the end of the month. The distribution rate was increased in March 2005 to $0.0917 per unit per month, or $1.10 on an annualized basis.

The Fund declared cash distributions totaling $27.3 million in 2005, an increase of $2.3 million or 9% compared to 2004. On a per unit basis, declared distributions totaled $1.10 in 2005, an increase of $0.03 or 2% compared to 2004. Of the cash distributions declared in 2005, a total of $0.68 or 61.6% has been allocated as other taxable income in the hands of unitholders that are Canadian residents, while $0.42 or 38.4% represents a return of capital that reduces the adjusted cost base of unitholder's Fund units. The return of capital portion provides holders of units with significant tax deferral opportunities.

The Fund's payout ratio was 92.5% in 2005, with cash distributions of $27.3 million compared to distributable cash of $29.5 million. The excess cash of $2.2 million that was generated in 2005 was used to reduce debt. The payout ratio in the previous year was 112.0%, primarily due to unfavorable summer weather conditions and dilution resulting from undeployed equity proceeds in 2004.

2005 Distributions

			Distributions			
Month	Record Date	Payment Date	Other Income	Dividend	Return of Capital	Total
January	January 31, 2005	February 15, 2005	$ 0.05580	–	$ 0.03340	$ 0.08920
February	February 28, 2005	March 15, 2005	$ 0.05038	–	$ 0.03882	$ 0.08920
March	March 31, 2005	April 15, 2005	$ 0.05578	–	$ 0.03592	$ 0.09170
April	April 29, 2005	May 13, 2005	$ 0.05395	–	$ 0.03775	$ 0.09170
May	May 31, 2005	June 15, 2005	$ 0.05574	–	$ 0.03596	$ 0.09170
June	June 30, 2005	July 15, 2005	$ 0.05392	–	$ 0.03778	$ 0.09170
July	July 29, 2005	August 15, 2005	$ 0.05570	–	$ 0.03600	$ 0.09170
August	August 31, 2005	September 15, 2005	$ 0.05569	–	$ 0.03601	$ 0.09170
September	September 30, 2005	October 14, 2005	$ 0.05103	–	$ 0.04067	$ 0.09170
October	October 31, 2005	November 15, 2005	$ 0.06300	–	$ 0.02870	$ 0.09170
November	November 30, 2005	December 15, 2005	$ 0.06099	–	$ 0.03071	$ 0.09170
December	December 30, 2005	January 13, 2006	$ 0.06278	–	$ 0.02892	$ 0.09170
2005 Total			**$ 0.67476**	**–**	**$ 0.42064**	**$ 1.09540**
Percent of total			61.6%	0.0%	38.4%	100.0%

Financial Results for 2005

Sales

Sales achieved a record level of $156.4 million in 2005, an increase of $42.0 million or 37% compared to the previous record set in 2004.

The increase in sales is primarily attributable to acquisitions completed in the last week of 2004 and in 2005. The contribution of the Losquadro Ice and Party Time Ice operations during their first summer season, along with the Hometown Ice operations during the last three and one-half months of the year, generated $33.5 million of sales in 2005.

In addition, sales in previously serviced markets were up by $14.3 million or 13% compared to 2004 as a result of a return to more normal weather conditions in 2005. A late start to spring in most markets was followed by a summer that was hot and dry in eastern Canada and the northeastern U.S., relatively seasonal in the midwest and central U.S., and below average in western Canada. Sales also include increased shipments into the hurricane-affected areas of the U.S. Gulf Coast in September.

Sales were impacted negatively by the stronger Canadian dollar in 2005, which decreased the Canadian dollar value of sales generated in U.S. markets by $5.8 million compared to 2004.

Cost of sales, selling, general and administration expenses

Cost of sales, selling, general and administration expenses totaled $115.4 million in 2005, an increase of $29.0 million or 34% compared to 2004.

The increase in expenses is primarily related to the Losquadro, Party Time and Hometown operations, which added $26.7 million to operating costs in 2005.

Expenses in previously serviced markets were up by $6.5 million or 8%, primarily driven by increased sales volumes that resulted from more favorable summer weather conditions this year and higher packaging and diesel fuel costs. These factors were partially offset by improved efficiency from investing in new and upgraded production plants and closing smaller less-efficient plants or converting them to distribution centers.

The stronger Canadian dollar in 2005 decreased the Canadian dollar value of costs incurred in U.S. operations by $4.2 million compared to 2004.

EBITDA

EBITDA totaled $41.0 million in 2005, an increase of $13.0 million or 46% compared to $28.0 million in 2004. The increase in EBITDA can be attributed both to acquisitions and to previously serviced markets.

The Losquadro, Party Time and Hometown acquisitions added $6.8 million to EBITDA in 2005, which includes the first peak operating season for Losquadro and Party Time but was limited to the post-summer period for Hometown. EBITDA in previously serviced markets was up by $7.8 million or 30% due to increased volumes and improved efficiency that has resulted from recent investments and rationalization efforts. These factors were partially offset by the stronger Canadian dollar, which decreased reported EBITDA by $1.6 million compared to the previous year.

EBITDA margin totaled 26.2% of sales in 2005, an increase of 7% compared to 24.5% in the previous year. The increase is primarily driven by improved operating efficiency that accompanies increased sales volumes and economies of scale that result from acquisitions, since corporate overhead can be allocated over a much larger base of operations. Consolidated EBITDA margins are often lower during periods of significant growth through acquisition, as newly acquired operations typically generate substantially lower margin levels over the first 18 to 24 months until the full effect of costs savings and efficiencies are realized. Excluding newly acquired operations, EBITDA margins totaled 27.8% of sales in 2005.

Amortization

Amortization expense totaled $18.1 million in 2005, an increase of $6.0 million or 50% compared to the previous year. Amortization of property, plant and equipment totaled $14.5 million in 2005, an increase of $4.5 million or 45% compared to 2004. Acquisitions and capital expenditures, including the new production plant in Newburgh, increased amortization by $4.9 million. This was offset by the impact of the stronger Canadian dollar, which reduced the Canadian dollar value of amortization of U.S. property, plant and equipment by $0.4 million compared to 2004. Amortization of property, plant and equipment totaled 9.2% of sales in 2005, a slight increase over 8.7% of sales in 2004 due to the asset mix of acquisitions.

Amortization of other assets and intangibles totaled $3.6 million in 2005, an increase of $1.6 million or 77% compared to 2004. The increase is primarily driven by the acquisitions of Losquadro, Party Time and Hometown, which resulted in new customer relationships and non-competition agreements, along with an increase in the deferred financing related to the senior notes that were issued in December 2004.

(thousands)	2005	2004
Property, plant and equipment	**$ 14,462**	$ 9,993
Non-competition agreements	**1,173**	514
Customer relationships	**1,015**	317
Deferred financing	**739**	532
Deferred development	**303**	305
Trade names	**181**	200
Other	**216**	183
	3,627	2,051
Total amortization	**$ 18,089**	$ 12,044

Interest

Interest expense totaled $6.9 million in 2005, an increase of $5.1 million compared to the previous year. The increase is primarily the result of higher debt levels in 2005 prior to the September equity offering, as a result of the increased scale of operations and related bridge financing, along with an increase in the average cost of debt. The average interest rate of debt was 6.1% in 2005, up compared to 3.1% in 2004 as a result of the issuance of fixed rate senior notes in December 2004 and costs associated with bridge financing.

Acquisition integration charges

Acquisition integration costs reflect non-operating outlays associated with integrating acquired operations into Arctic Glacier's business model, subsequent to the completion of an acquisition, along with costs of maintaining an acquisition department. Acquisition integration costs totaled $1.5 million in 2005, an increase compared to $0.5 million in 2004 as a result of expenditures related to integrating Losquadro, Party Time and Hometown operations during the year.

Loss (gain) on disposal of property, plant and equipment

Loss on disposal of property, plant and equipment totaled less than $0.1 million in 2005, resulting from the disposition of the remaining surplus equipment from the Hatfield, Pennsylvania facility, which was closed in the spring. This compares to a gain on disposal of property, plant and equipment of $0.3 million in 2004, resulting from the disposal of land and building in the central U.S. that was no longer required.

Loss (gain) on foreign exchange options

The loss on foreign exchange options totaled $0.1 million in 2005, resulting from the Fund's exchange management program. This amount is comprised of $0.1 million of cash gains realized on the exercise of currency option contracts that matured during the year, and an unrealized loss of $0.2 million representing the reversal of the balance of the non-cash fair value adjustment of the value of the asset associated with outstanding currency option contracts at the beginning of the year.

The gain on foreign exchange options for the previous year totaled $1.2 million, comprised of $1.0 million of realized gains on the exercise of foreign exchange option contracts that were used to mitigate the risk of a stronger Canadian dollar on 2004 distributable cash and $0.2 million of unrealized gains resulting from the non-cash mark-to-market adjustment of contracts outstanding at the end of the year used to mitigate the risk of a stronger Canadian dollar on 2005 distributable cash.

(thousands)	2005	2004
Realized gains on exercise of option contracts	**$ (63)**	$ (1,035)
Reverse mark-to-market adjustments of contracts outstanding at beginning of year	**200**	–
	137	(1,035)
Mark-to-market adjustment of contracts outstanding at end of year	**–**	(200)
Loss (gain) on foreign exchange options	**$ 137**	$ (1,235)

Debt settlement costs

No debt settlement costs were incurred in 2005. In December 2004, the terms of the revolving term credit facility were amended and restated to provide for the issuance of senior notes, resulting in a settlement of the original credit facility for accounting purposes and a write-off of unamortized deferred financing costs of $0.5 million.

Non-recurring expenses

No non-recurring expenses were incurred in 2005. Non-recurring expenses totaled $0.1 million in 2004 related to resolving issues for acquisitions made in previous years.

Reduction in cumulative translation adjustment

The reduction in the cumulative translation adjustment of $0.6 million in 2004 resulted from a decrease in the Fund's net investment in the subordinated long-term notes held in its self-sustaining U.S. subsidiaries as a result of a principal repayment. The reduction in the net investment required that a proportionate share of the balance in the cumulative translation adjustment be recognized in earnings.

Income tax expense (reduction)

The Fund is a mutual fund trust as defined under the *Income Tax Act*, and as a result is not subject to taxation on its income to the extent that its income is distributed to its unitholders. Accordingly, the consolidated tax rate for 2005 was substantially lower than the Canadian statutory rate of 35.3%.

The income tax recorded in the consolidated financial statements all relates to Arctic Glacier and its subsidiaries. Income tax reduction for 2005 totaled $1.6 million, compared to $0.2 million in 2004. The increase is primarily due to reduced withholding taxes paid and recoveries that result from deducting expenses of the September 2005 equity offering.

Income tax reduction of $1.6 million for 2005 is comprised of $2.1 million of income tax recovery on the net tax loss from operations that resulted after deducting earnings of the Fund taxed in the hands of its unitholders. This amount was offset by $0.5 million of large corporation, capital and state taxes paid. There were no withholding taxes paid in 2005 as certain components of cash flows from the U.S. to Canada are now considered to be portfolio interest for U.S. taxation purposes as a result of the internal corporate restructuring completed in September 2004.

Income tax reduction of $0.2 million for 2004 was comprised of $1.4 million of income tax recovery on the net tax loss from operations that resulted after deducting earnings of the Fund taxed in the hands of its unitholders. This amount was offset by $0.5 million of large corporation, capital and state taxes paid and $0.7 million of withholding taxes paid.

Earnings and earnings per unit

Earnings totaled $16.0 million for 2005, an increase of $1.7 million or 12% compared $14.3 million in the previous year. On a per unit basis, earnings were $0.65 per unit (basic and diluted) compared to $0.61 (basic and diluted) in 2004.

Quarterly Results

(thousands, except per unit amounts)	Total	Q1	Q2	Q3	Q4
2005					
Sales	156,439	13,809	47,275	73,584	21,771
EBITDA	41,013	(5,089)	15,086	31,567	(551)
Earnings (loss)	15,965	(5,707)	6,332	17,149	(1,809)
Earnings (loss) per unit:					
Basic and diluted	0.65	(0.24)	0.27	0.72	(0.06)
2004					
Sales	114,434	11,222	36,088	50,640	16,484
EBITDA	28,050	(4,123)	10,553	20,197	1,423
Earnings (loss)	14,301	(3,054)	5,574	11,566	215
Earnings (loss) per unit:					
Basic and diluted	0.61	(0.13)	0.24	0.50	0.01

The majority of Arctic Glacier's operations are in Canada and the north central, midwest and northeastern United States. As a result, the business is affected by seasonal weather patterns. Demand for packaged ice is very light during the first four months of the year, which are characterized by negative EBITDA and significant losses. Demand picks up in spring but is very dependent upon temperature and precipitation. As a result, May and June enjoy positive EBITDA and modest earnings. The third quarter of the year includes the peak summer sales period and is the financial driver for the business. Demand tapers off after the summer season ends and, as a result, the last quarter of the year is normally characterized by slightly negative EBITDA and losses.

On a quarterly basis, sales, EBITDA, earnings (loss) and earnings (loss) per unit were all impacted by the Losquadro, Party Time and Hometown acquisitions as well as by the stronger Canadian dollar compared to 2004.

Fourth Quarter

Sales for the fourth quarter of 2005 totaled $21.8 million, an increase of $5.3 million or 32% compared to the fourth quarter of 2004. Acquired operations contributed $3.6 million and sales in previously serviced markets (those operating for more than one year) were up $2.2 million or 13%, while the stronger Canadian dollar reduced reported sales by $0.5 million.

EBITDA for the fourth quarter of 2005 totaled $(0.6) million, compared to $1.4 million for the same period of 2004. The reduction primarily results from acquired operations, which contributed $(1.3) million during the quarter. The EBITDA of previously serviced markets was lower by $0.6 million during the quarter, primarily the result of higher energy costs incurred this year. The stronger Canadian dollar reduced reported EBITDA by $0.1 million.

Amortization expense totaled $4.6 million for the fourth quarter of 2005, an increase of $1.4 million or 45% compared to the fourth quarter of 2004 due to amortization of property, plant and equipment, customer relationships and non-competition agreements resulting from acquisitions.

Interest expense totaled $1.2 million for the fourth quarter of 2005, an increase of $0.6 million as a result of increased debt levels resulting from the increased scale of operations and the senior notes that were issued in December 2004.

The loss for the fourth quarter of 2005 totaled $1.8 million compared to earnings of $0.2 million for the fourth quarter of 2004. On a per unit basis, the loss was $0.06 (basic and diluted) compared to earnings of $0.01 (basic and diluted) for the fourth quarter of 2004.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity ensures that the Fund has sufficient financial resources available to it at all times to meet its obligations, and involves the effective management of assets and liabilities, along with maintaining the optimum capital structure. The Fund manages this risk by ensuring that it has adequate cash and access to credit to meet its obligations in the most cost-effective manner possible.

Cash flow from operations, together with cash on hand and unutilized credit available on existing credit facilities are expected to be sufficient to meet operating requirements, capital expenditures and anticipated distributions.

Cash Requirements and Obligations

The following aggregated information about the Fund's cash requirements and obligations aims to provide insight into short and long-term liquidity and capital resource requirements. The Fund and its subsidiaries have contractual obligations that require future cash payments as follows:

		Payments Due by Period								
(thousands)		Total commitments		Within 1 year		2 - 3 years		4 - 5 years		After 5 years
Long-term debt	$	74,515	$	2,086	$	2,417	$	70,012	$	–
Operating leases		15,603		4,416		5,388		3,471		2,328
Purchase obligations		–		–		–		–		–
Total contractual obligations	$	90,118	$	6,502	$	7,805	$	73,483	$	2,328

Additional disclosure on long-term debt and operating leases is provided in notes 8 and 20 to the consolidated financial statements. There were no purchase obligations outstanding at December 31, 2005.

The Fund expects that its sustaining capital expenditures will average approximately 3.5 to 4.0% of sales on an annual basis in the future, and that these expenditures will be funded from cash from operations. During 2006, the Fund expects to invest approximately $10 to 12 million related to the new manufacturing plant in Milwaukee as part of the Hometown acquisition, improved drying and packaging equipment in Twin Oaks, and a new distribution center in the northern Philadelphia metro area to improve distribution efficiency in that market. The Fund expects that these expenditures will be funded from working capital and available credit facilities.

The Fund also continues to actively investigate accretive acquisition opportunities in markets where significant regional presence can be achieved or enhanced. The Fund expects to fund platform acquisitions from existing or additional credit facilities and equity proceeds. Tuck-in acquisitions are generally funded from working capital or existing credit facilities.

Sources and Uses of Cash

The Fund's liquidity needs are met through a variety of sources, including: cash generated from operations, short-term borrowings against the line of credit and long-term borrowings against the revolving term credit facility. Funds are primarily used for operational expenses, sustaining and growth capital expenditures, acquisitions, interest and principal payments on debt securities, and distributions to unitholders.

Sources and Uses of Cash

(thousands)		2005		2004
Funds from operations	$	**32,498**	$	25,512
Changes in working capital items		**(2,931)**		1,518
Cash from operating activities		**29,567**		27,030
Cash used in investing activities		**(20,376)**		(80,766)
Cash from (used in) financing activities		**(16,917)**		59,523
Other		**(716)**		(2,064)
Increase (decrease) in cash during year	$	**(8,442)**	$	3,723

Cash from operating activities

Funds from operations totaled $32.5 million in 2005, an increase of $7.0 million or 27% compared to $25.5 million in the previous year. The increase is directly attributable to higher EBITDA that resulted from the Losquadro and Party Time acquisitions and the return to more normal summer weather conditions. These amounts were partially offset by the increased interest expense in 2005 from higher debt levels and bridge financing along with the costs associated with acquisition integration activities for the Losquadro, Party Time and Hometown acquisitions.

Changes in working capital items resulted in a use of cash of $2.9 million in 2005, compared to a source of cash of $1.5 million in 2004. The use of cash in 2005 is primarily driven by the payment early in the year of significant professional fees and other costs related to acquisitions and financing arrangements that were completed late in 2004. The source of cash in 2004 is primarily the result of an increase in payables at the end of the year from acquisition and financing related expenses and a decrease in prepaid expenses as a result of costs paid in the previous year related to acquisition completed in 2004. These amounts were offset by an increase in the level of raw materials inventory resulting from taking receipt of certain production inputs earlier in the supply cycle to take advantage of costs savings offered by suppliers.

Cash used in investing activities

(thousands)	2005	2004
Sustaining capital expenditures, net of dispositions	**$ 3,018**	$ 3,221
Growth capital expenditures	**8,611**	10,811
Acquisitions	**8,456**	63,526
Additions to other assets	**291**	2,999
Additions to intangibles and goodwill	**–**	209
Total cash used in investing activities	**$ 20,376**	$ 80,766

Cash used in investing activities totaled $20.4 million in 2005, primarily for acquisitions and capital expenditures. Sustaining capital expenditures, which represents the replacement of property, plant and equipment to sustain current business operations, totaled $3.0 million in 2005, down from $3.2 million in 2004. This represents 1.9% of sales, a decrease from 2.8% in 2004. Expenditures were less than anticipated in 2005, primarily due to better than average experience with respect to major unscheduled plant and distribution fleet requirements and minimal requirements at new or recently upgraded facilities with new equipment. In addition, minimal expenditures were made in newly acquired operations while management was assessing operational needs in the first peak sales season and identifying possible rationalization opportunities. Expenditures in 2004 were characterized by cancellation or deferral of certain non-essential outlays late in the year as a result of the impact of poor summer weather on profitability and distributable cash that year. Sustaining capital expenditures are funded from operating cash flow and are expected to average between 3.5 and 4% of sales on an annual basis.

Growth capital expenditures, representing outlays that are integral with acquisition initiatives or that grow the business and enhance distributable cash, totaled $8.6 million in 2005 to build a new production plant in Newburgh, expand plant capacity in Twin Oaks and implement computerized handhelds and other technology in the Losquadro, Party Time and Hometown operations. Growth capital expenditures totaled $10.8 million in 2004 to add ice-making capacity and product drying equipment in Alberta, acquire the land and building in Newburgh that was previously rented and to build the new head office building. Growth capital expenditures are excluded from the calculation of distributable cash as they are funded from available cash, debt or equity and are made only when it is expected that they would result in increased distributable cash.

Cash totaling $8.5 million was used in 2005 to acquire the Hometown Ice operation. In 2004, cash totaling $63.5 million was used to acquire the Reynolds, Anytime, Losquadro and Party Time operations.

Additions to other assets totaled $0.3 in 2005, primarily deferred financing costs related to issuing senior notes and amending the revolving term credit facility in December 2004 and subsequently extending the term of the revolving term credit facility to January 2009. Additions to other assets of $3.0 million in 2004 relate to issuing the senior notes and amending the terms of the revolving credit facility, obtaining financing on acquisitions, and costs related to the corporate restructuring.

Summary of Acquisitions

(thousands)	Date	2005	2004
Hometown Ice	September 16, 2005	**$ 8,456**	$ –
Party Time Ice (1)	December 30, 2004	**–**	38,055
Losquadro Ice (2)	December 23, 2004	**–**	13,196
Anytime Ice Company	July 16, 2004	**–**	2,220
A.T. Reynolds & Sons, Inc.	March 2, 2004	**–**	10,055
		$ 8,456	$ 63,526

(1) Net of cash assumed of $914; excludes deferred consideration of $721 and contingent consideration not yet determinable.
(2) Excludes deferred consideration of $962 and amounts payable in 2006 and 2007.

Cash from (used in) financing activities

(thousands)		2005		2004
Sources				
Proceeds from units issued:				
September 20, 2005 equity offering	$	**47,081**	$	–
DRIP Plan		**945**		816
Total proceeds from units issued		**48,026**		816
Proceeds from long-term debt		**2,318**		100,156
Total sources of cash		**50,344**		100,972
Uses				
Principal repayments on long-term debt		**(40,437)**		(16,073)
Principal payments under capital lease obligations		**(36)**		(426)
Cash distributions paid		**(26,788)**		(24,950)
Total uses of cash		**(67,261)**		(41,449)
Total cash from (used in) financing activities	$	**(16,917)**	$	59,523

The Fund raised a total of $48.0 million from issuing units in 2005, including $47.1 million from a public unit offering and $0.9 million from the Distribution Reinvestment and Optional Cash Purchase Plan ("DRIP Plan"). On September 20, 2005, the Fund completed a successful offering of 4.45 million units at a price of $11.25 per unit for net proceeds of $47.1 million after deduction for underwriters' fees and other issuance costs of $3.0 million. The Fund used the proceeds from issuing units for the Hometown acquisition and to reduce amounts outstanding under the revolving term credit facility.

The Fund also drew $2.3 million on the revolving term credit facility early in the year to fund seasonal working capital requirements.

The Fund utilized $40.5 million in 2005 to make principal payments on long-term debt and obligations under capital leases, including $39.6 million to pay off the balance outstanding on the revolving term credit facility with the proceeds of the equity offering, $0.5 million of scheduled payments of deferred acquisition consideration and other loans, and $0.4 million to accelerate certain payments of deferred acquisition consideration under the amended Losquadro purchase agreement. The Fund used $26.8 million of cash for distributions to unitholders during 2005.

During 2004, the Fund generated proceeds of $101.0 million from long-term debt and equity issues, including $72.1 million from the issuance of senior notes, $28.1 million drawn on the revolving term credit facility and $0.8 million raised under the DRIP Plan. The Fund used cash of $16.5 million to repay principal on long-term debt and obligations under capital leases in 2004. This included repayment of $15.9 million of principal outstanding on the revolving term credit facility from the proceeds of the senior notes, $0.4 million of obligations under capital leases and $0.2 million of deferred acquisition consideration and other loans. The balance of the funds raised were used for acquisitions, growth capital expenditures, seasonal working capital requirements, deferred financing costs and to pay obligations arising from the Brandywine acquisition. The Fund used $25.0 million of cash for distributions to unitholders during 2004.

Credit Facilities

At December 31, 2005, the Fund's credit facilities were comprised of a U.S. $60 million senior note facility, a revolving term credit facility consisting of Canadian and U.S. revolving facilities of $7.0 and U.S. $28.0 million respectively, and Canadian and U.S. operating lines of credit of $6.0 and U.S. $5.0 million respectively. The revolving facilities and the Canadian operating line of credit can be drawn in either Canadian or U.S. dollars. The senior notes are due January 1, 2010 and carry a fixed annual interest rate of 5.35%, payable monthly, with principal due at maturity. The revolving term credit facility and the operating lines of credit bear interest at floating rates based on LIBOR or Bankers' Acceptances plus a margin based on the Fund's quarterly leverage ratio. The maturity date of the revolving term credit facility was extended during the year by the lending syndicate to January 2009.

Credit Facilities at December 31, 2005

(thousands)	Currency	Facility Amount	Amount Outstanding	Credit Available
Senior secured notes, due January 1, 2010	US	$ 60,000	$ 60,000	$ –
Revolving term credit facility – US$	US	28,000	–	28,000
Revolving term credit facility – C$	CA	7,000	–	7,000
Operating line of credit – US$	US	5,000	–	5,000
Operating line of credit – C$	CA	6,000	–	6,000

The Fund had long-term debt outstanding at December 31, 2005 of $74.5 million, comprised of senior notes of $69.8 million (U.S. $60 million) and deferred acquisition consideration of $4.7 million. There were no amounts outstanding under the revolving term credit facility or the operating lines of credit, and the entire amount of these facilities is available to fund acquisitions, growth capital expenditures and seasonal working capital requirements. During the year, the Losquadro purchase agreement was amended to replace the contingent earn-out consideration with non-contingent payments in 2006 and 2007 totaling U.S. $2.9 million.

The Fund had long-term debt of $112.8 million at the same time in 2004, comprised of senior notes of $72.1 million (U.S. $60 million), amounts drawn under the revolving term credit facility of $38.3 million, deferred acquisition consideration and other loans payable of $2.3 million and obligation under capital leases of $0.1 million.

The Fund's net debt[1] to EBITDA ratio at December 31, 2005 was 1.6 to 1[2] compared to 2.6 to 1[3] the previous year. The reduction is the result of raising equity in September 2005 to reduce debt levels. The Fund's intention is to maintain a net debt to EBITDA ratio of less than 2.25 to 1, excluding any temporary bridge financing of acquisitions.

The Fund's financing arrangements contain various financial covenants. The Fund is in compliance with all debt covenants at December 31, 2005.

(1) Net debt is defined as total long-term debt, obligations under capital leases and bank indebtedness, reduced by cash.
(2) With 2005 EBITDA increased by $1.3 million to give effect to the trailing 12 month contribution of acquisitions and the realized gain on foreign currency options.
(3) With 2004 EBITDA increased by $9.9 million to give effect to the trailing 12 month contribution of acquisitions and the realized gain on foreign currency options.

Outstanding Securities

Fund units represent an equal and undivided beneficial interest in the Fund and any distributions. All units are of the same class with equal rights and privileges. The Fund is authorized to issue an unlimited number of units pursuant to its Declaration of Trust.

The Fund issued 4.54 million units in 2005. On September 20, 2005, the Fund completed a successful offering of 4.45 million units at a price of $11.25 per unit for net proceeds of $47.1 million after deduction for underwriters' fees and other issuance costs of $3.0 million. During 2005, the Fund also issued 0.09 million units under the DRIP Plan at an average price of $10.76 per unit for net proceeds of $0.9 million. The Fund used the proceeds from units issued in 2005 for the Hometown acquisition and to reduce amounts outstanding under the revolving term credit facility.

The Fund issued 0.07 million units in 2004 under the DRIP Plan at an average price of $10.91 per unit for net proceeds of $0.8 million. The Fund used the proceeds for growth capital expenditures.

As at December 31, outstanding unit data was as follows:

Outstanding Unit Data

(thousands)	2005	2004
Units outstanding	**27,887.7**	23,350.0
Unit options outstanding	**2,350.0**	840.0

As at March 3, 2006, the Fund had 27,901.1 units and 2,350.0 options outstanding.

ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period, and would materially impact the Fund's financial condition, changes in financial condition or results of operations. The Fund's significant accounting policies are disclosed in note 2 of the notes to the consolidated financial statements. The Fund's management is of the opinion that the critical accounting estimates that, if changed, could materially affect the Fund's financial condition or results of operations are those related to intangibles and goodwill.

Intangibles – Intangible assets are evaluated on the basis of their fair value based on internal valuations. These valuations use management estimates and assumptions including projected revenues, cash flows, discount rates and customer retention rates. Changes in these estimates and assumptions could affect amortization or intangible impairment in the statements of operations and intangibles on the balance sheets of the Fund's consolidated financial statements.

Goodwill – Goodwill is subject to an impairment test to be performed at least annually to ensure that fair value remains greater than, or equal to, carrying value. The Fund uses certain operating and financial assumptions to conduct its impairment test. This test uses current market information, when available, or other generally accepted valuation methods, such as discounted cash flows. Differences in assumptions regarding discount rates and projection of future operating cash flows could have a significant impact on the determination of the existence and amount of any impairment. These assumptions are tested against relevant independent information for consistency and reliability. Changes in estimates or assumptions could affect the goodwill impairment in the statements of operations and goodwill on the balance sheets of the Fund's consolidated financial statements.

CONTROLS

Effectiveness of disclosure controls and procedures

Management has established and maintained disclosure controls and procedures for the Fund in order to provide reasonable assurance that material information relating to the Fund is made known to management in a timely manner and that information required to be disclosed by the Fund is reported within time periods prescribed by applicable securities legislation. Management has evaluated the effectiveness of the Fund's disclosure controls and procedures, as at the date of this annual report, and as a result of that review, the Fund's Chief Executive Officer and Chief Financial Officer believe them to be effective in providing such reasonable assurance.

RELATED PARTY TRANSACTIONS

The Fund and its subsidiaries have not entered into any significant transactions with related parties during 2005 and do not have any amounts that are due from or due to related parties.

RISK MANAGEMENT

Financial Instruments

The Fund and its subsidiaries generate significant cash flows in U.S. dollars and are therefore subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. In order to reduce this risk, the Fund has an exchange management program that uses derivative financial instruments, which are not held or issued for speculative purposes.

In December 2004, the Fund and its subsidiaries entered into a series of foreign exchange option contracts that provided a floor exchange rate of $1.1950 Canadian dollars per U.S. dollar on U.S. $14.0 million and provided the Fund with 50% participation in any weakening of the Canadian dollar above the floor price, representing approximately 75% of the Fund's estimated 2005 net distributable cash generated in U.S. dollars. These contracts had settlement dates between June and November of 2005. A gain of $0.1 million was realized on the exercise of these foreign exchange option contracts, which has been included in earnings in 2005. The reversal of the mark-to-market value of the contracts at the beginning of the year resulted in an unrealized loss of $0.2 million, which has been included in earnings in 2005.

In May 2004, the Fund and its subsidiaries entered into a series of foreign exchange option contracts that provided a floor exchange rate of $1.3660 Canadian dollars per U.S. dollar on U.S. $14.0 million, representing approximately 85% of the Fund's estimated 2004 net distributable cash generated in U.S. dollars. These contracts had settlement dates prior to December 31, 2004, and contained knock-in provisions that called for the balance of any options to be exercised at $1.3660 if the spot exchange rate exceeded $1.4910 at any point prior to maturity. The Fund realized a gain of $1.0 million on the exercise of these foreign exchange options contracts, which was included in earnings in 2004.

There were no foreign exchange option contracts outstanding at December 31, 2005, compared to an aggregate notional amount of U.S. $21.0 million at December 31, 2004. Subsequent to the end of the year, in February 2006, the Fund and its subsidiaries entered into a series of foreign exchange option contracts that provide a floor exchange rate of $1.1350 Canadian dollars per U.S. dollar on U.S. $13.5 million, representing approximately 72% of the balance of the Fund's 2006 distributable cash generated in U.S. dollars. These contracts have settlement dates between March and December of 2006, and contain knock-in provisions that call for the balance of any options to be exercised at $1.1350 if the spot exchange rate exceeds $1.2105 at any point prior to maturity.

Business Risks

The Fund and its subsidiaries are subject to certain risks inherent in the operation of its business, including significant risks such as the effect of weather and seasonality on operating results, competition, interest rates and currency exchange rates. Risk and risk exposures to these and other risks are managed through a combination of insurance, a system of internal controls and sound operating practices.

Weather and seasonality

Weather can have a significant effect on operating results. Rain and cool weather can have an adverse effect on sales and earnings in any given market area, particularly if it occurs in the busy summer months.

The packaged ice industry is very seasonal. The Company usually generates significant sales and profits in the second and third quarters, with lower sales and significant losses incurred in the first and fourth quarters. Cash flows peak in the third and fourth quarters and drop off in the first and second quarters.

The Fund and its subsidiaries believe that its diverse geographic area of operations, and its liquidity and access to cash resources minimize the impact of these risks on financial performance.

Competition

The packaged ice industry is very competitive. The Company faces a number of competitors including smaller independent ice manufacturers, retailers that manufacture and package ice at individual store locations, and one larger competitor with a similar acquisition strategy. Competition exists mainly on a regional basis with the main competitive factors being price, service and product quality. Additionally, there can be no assurance that competitors will not achieve greater market acceptance due to pricing or other factors.

The Company is well equipped to deal with local competition through a strong relationship with customers, and in particular national chain accounts, size and efficiency of operation and a branded market leadership position. The Company's financial results, combined with the Fund's improved access to capital for future growth and expansion, significantly limit the ability of local competitors to have a significant effect on the financial results of the Fund.

Interest rates

The Fund and its subsidiaries have certain floating rate debt and may be negatively impacted by increases in interest rates, the effect of which would increase interest expense. To the contrary, if interest rates decline interest expense would be reduced.

At December 31, 2005, long-term debt totaling $nil was subject to floating rates and $74.5 million had fixed rates. As a result, a one-percentage point increase in average interest rates would not have an effect on interest expense.

The Fund continually monitors interest rates and takes appropriate action necessary to manage exposure in this area.

Currency risk

The Fund and its subsidiaries are subject to fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. A substantial portion of cash flows are realized in U.S. dollars. Future growth is expected to be concentrated in the United States. Fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar may have an adverse effect on financial results.

The Fund and its subsidiaries have hedged their debt service capability by establishing their debt on a multi-currency basis and funding U.S. acquisitions with debt denominated in U.S. dollars, thereby allowing it to be serviced and repaid directly from U.S. cash flows.

The Fund has an exchange management program that utilizes foreign exchange forward contracts to fix conversion rates on certain larger dollar transactions and foreign exchange option contracts to reduce the sensitivity of distributable cash to a strengthening of the Canadian dollar. As at December 31, 2005, the Fund did not have any foreign exchange forward or option contracts outstanding.

As at December 31, 2005, a $0.01 strengthening in the value of the Canadian dollar in relation to the U.S. dollar over the course of a fiscal year would reduce annual sales by approximately $1.0 million, EBITDA by $0.3 million, distributable cash by $0.2 million and distributable cash per unit by $0.008.

The Fund will continue to monitor exchange rates and take the appropriate action necessary to manage exposure in this area.

OUTLOOK

The new performance benchmarks established by Arctic Glacier in 2005 indicate the accretiveness of the Fund's acquisitions, the rationalization and integration of acquired operations and a return to more normal weather conditions compared to 2004.

The Fund's acquisitions have provided the greatest increase of distributable cash and enhancement of North American market presence. The acquisition of Losquadro Ice in New York City added significantly to market share and clearly established Arctic Glacier as the leader in New York City, northern New Jersey and Long Island. Similarly, the acquisition of Party Time Ice brought the Fund a major new market in eastern Michigan, including the populous Detroit region. Because both operations were acquired in December 2004, they contributed a full year of financial results in 2005. Similarly, the acquisition of Hometown Ice in Milwaukee, Wisconsin in September 2005 was both a contiguous addition to Arctic Glacier's operations in adjoining states and a new market in central and eastern Wisconsin.

These acquisitions were complemented in 2005 by a comprehensive series of rationalization and integration activities. They consisted of closing redundant operations, converting some facilities to more productive uses, expanding capacity at others and new construction where needed. The effect of these activities was to maximize regional synergies, minimize administrative overhead and reduce staffing levels.

These additions and improvements provided a significant enhancement of the Fund's profitable growth during 2005, while generating distributable cash in excess of requirements for monthly cash distributions. In terms of market effect, they broadened Arctic Glacier's customer base, added to market momentum and raised the Fund's business profile.

As a result, Arctic Glacier is expected to improve operational metrics in fiscal 2006. At the same time, the Fund is very well positioned to continue making selective, accretive acquisitions, either as tuck-in additions contiguous to existing operations or as major platform acquisitions that enter new market areas. And finally, the Fund's reliable cash flow and solid financial foundation will enable it to continue providing unitholders with monthly cash distributions on an ongoing basis, well into the future.

Financial Results 2005

MANAGEMENT'S RESPONSIBILITY for Financial Reporting

The accompanying consolidated financial statements of Arctic Glacier Income Fund for the year ended December 31, 2005 and all information in this annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the consolidated financial statements. The consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis. The significant accounting policies, which management believes are appropriate for the Fund, are described in note 2 to the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and to produce reliable accounting records for the preparation of financial information.

The Fund's independent auditors, KPMG LLP, have been appointed by the unitholders to audit the financial statements and express an opinion thereon.

The board of trustees is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The board of trustees carries out this responsibility principally through its audit committee, composed entirely of outside and unrelated trustees. The audit committee meets regularly with financial management of the Fund and with the independent auditor to discuss internal controls, audit matters, financial reporting issues and reports to the board of trustees thereon. The audit committee also reviews and approves the consolidated financial statements for inclusion in the annual report. The independent auditor has full and free access to the audit committee.

February 24, 2006

ROBERT J. NAGY
President and Chief Executive Officer

KEITH W. MCMAHON, C.A.
Executive Vice President
and Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Arctic Glacier Income Fund

We have audited the consolidated balance sheets of Arctic Glacier Income Fund as at December 31, 2005 and 2004 and the consolidated statements of operations, cumulative earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

February 24, 2006

Consolidated BALANCE SHEETS

As at December 31, 2005 and 2004

(thousands)	2005	2004
ASSETS		
Current assets		
Cash	$ 6,313	$ 14,755
Accounts receivable	8,569	7,845
Inventories	6,012	5,961
Prepaid expenses	2,381	2,180
	23,275	30,741
Property, plant and equipment (Note 4)	119,847	120,717
Other assets (Note 5)	2,714	3,739
Intangibles (Note 6)	24,782	25,695
Goodwill (Note 7)	106,899	106,150
	$ 277,517	$ 287,042
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 9,269	$ 12,325
Distributions payable to unitholders	2,557	2,083
Current obligations under capital leases	–	38
Principal due within one year on long-term debt	2,086	514
	13,912	14,960
Long-term debt (Note 8)	72,429	112,252
Future income taxes (Note 15)	7,920	10,426
Unitholders' equity		
Capital contributions (Note 9)	249,747	201,721
Contributed surplus (Note 10)	723	334
Cumulative earnings	38,292	22,327
Cumulative distributions (Note 11)	(84,724)	(57,462)
Cumulative translation adjustment	(20,782)	(17,516)
	183,256	149,404
	$ 277,517	$ 287,042

See accompanying notes to consolidated financial statements.

Approved on behalf of the Trustees by:

ROBERT J. NAGY
Trustee

GARY A. FILMON
Trustee

Consolidated STATEMENTS OF OPERATIONS

Years ended December 31, 2005 and 2004

(thousands, except per unit amounts)	2005	2004
Sales	$ 156,439	$ 114,434
Cost of sales, selling, general and administration expenses (Note 13)	115,426	86,384
Earnings before the undernoted	41,013	28,050
Amortization	18,089	12,044
Interest (Note 12)	6,907	1,784
Acquisition integration charges	1,489	462
Loss (gain) on disposal of property, plant and equipment	55	(286)
Loss (gain) on foreign exchange options (Note 13)	137	(1,235)
Debt settlement costs (Note 14)	–	518
Non-recurring expenses	–	119
Reduction in cumulative translation adjustment (Note 13)	–	585
Earnings before income taxes	14,336	14,059
Income tax expense (reduction) (Note 15)		
Current	571	1,542
Future	(2,200)	(1,784)
	(1,629)	(242)
Earnings	$ 15,965	$ 14,301
Earnings per unit (Note 16)		
Basic	$ 0.65	$ 0.61
Diluted	$ 0.65	$ 0.61

See accompanying notes to consolidated financial statements.

Consolidated STATEMENTS OF CUMULATIVE EARNINGS

Years ended December 31, 2005 and 2004

(thousands)	2005	2004
Cumulative earnings, beginning of year	$ 22,327	$ 8,026
Earnings	15,965	14,301
Cumulative earnings, end of year	$ 38,292	$ 22,327

See accompanying notes to consolidated financial statements.

Consolidated STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004

(thousands)	2005	2004
Cash from (used in):		
Operating activities		
Earnings	$ 15,965	$ 14,301
Adjustments for:		
Amortization	18,089	12,044
Loss (gain) on disposal of property, plant and equipment	55	(286)
Unit based compensation expense	389	334
Unrealized losses (gains) on foreign exchange options	200	(200)
Non-cash portion of debt settlement expenses	–	518
Non-cash reduction in cumulative translation adjustment	–	585
Future income taxes reduction	(2,200)	(1,784)
Funds from operations	32,498	25,512
Changes in working capital items (Note 17)	(2,931)	1,518
	29,567	27,030
Investing activities		
Additions to property, plant and equipment	(11,913)	(14,940)
Proceeds from disposal of property, plant and equipment	284	908
Additions to other assets	(291)	(2,999)
Additions to intangibles	–	(13)
Additions to goodwill	–	(196)
Acquisition of business operations, net of bank indebtedness assumed of $nil (2004 - $914) (Note 3)	(8,456)	(63,526)
	(20,376)	(80,766)
Financing activities		
Proceeds from long-term debt	2,318	100,156
Principal repayments on long-term debt	(40,437)	(16,073)
Principal payments under capital lease obligations	(36)	(426)
Units issued, net of issue costs	48,026	816
Cash distributions paid	(26,788)	(24,950)
	(16,917)	59,523
Foreign exchange loss on cash held in foreign currency	(716)	(2,064)
Increase (decrease) in cash	(8,442)	3,723
Cash, beginning of year	14,755	11,032
Cash, end of year	$ 6,313	$ 14,755
Supplementary cash flow information		
Interest paid	$ 6,739	$ 1,811
Income taxes paid	571	1,542

The portion of the purchase price or additional consideration on acquisitions of business operations satisfied by the issuance of deferred consideration in the amount of $3,369 (2004 - $1,683) has been excluded from the financing and investing activities.

See accompanying notes to consolidated financial statements.

(amounts in thousands, except per unit amounts)

1. ORGANIZATION

Arctic Glacier Income Fund (the "Fund") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on January 22, 2002. The Fund, through its subsidiaries, operates in the packaged ice manufacturing and distribution business in Canada and the United States and is active in acquiring ice manufacturing and distribution companies. The Fund also licenses its trade names and proprietary technology to independently owned companies in Canada and the United States under franchise and license agreements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements include the accounts of the Fund and its subsidiaries, all of which are wholly-owned. All significant transactions and balances among group entities have been eliminated.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Vehicles and equipment under capital leases are initially recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided on the following basis and at the following annual rates:

Asset	Basis	Rate
Buildings	Straight-line	4%
Machinery and equipment and equipment under capital leases	Straight-line	5% - 20%
Merchandisers	Straight-line	6.67% - 10%
Vehicles and vehicles under capital leases	Straight-line	13% - 20%
Computer and office equipment	Straight-line	20% - 33%
Leasehold improvements	Straight-line	20%

Other assets

Other assets are recorded at cost.

Deferred financing costs consist of financing fees incurred in connection with the issue of debt or the establishment of credit facilities. These costs are amortized on a straight-line basis over the term of the related debt or credit facility.

Deferred development costs represent costs incurred to develop an in-store packaged ice machine. These costs are deferred and amortized over five years, being the estimated useful life of the technology.

Other assets consist primarily of costs associated with corporate restructuring and establishing the franchise and licensing programs and the Distribution Reinvestment and Optional Cash Purchase Plan. These costs are amortized on a straight-line basis over periods ranging from three to five years.

Intangibles

Brands, trade names, non-competition agreements and customer relationships represent intangible assets acquired in business acquisitions that meet the specified criteria for recognition. These assets are recorded at fair value and are amortized on a straight-line basis over the estimated useful life of the assets with periods ranging from two to five years for brands, trade names and non-competition agreements and ten to twenty years for customer relationships.

The Arctic Glacier brand and trademark has an indefinite useful life. Accordingly, it is not amortized and is tested for impairment annually; or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of the carrying value over fair value will be charged to income in the period in which the impairment is determined.

Goodwill

Goodwill is the excess of the purchase price paid for acquired operations over the fair value of the net assets acquired. Amounts recorded in goodwill are not amortized, but are subject to a fair value impairment test to be performed at least annually to ensure that the fair value of goodwill remains greater than, or equal to, the carrying value. Any excess of the carrying value over fair value will be charged to income in the period in which the impairment is determined.

Impairment of long-lived assets

Effective January 1, 2004, the Fund adopted the new accounting standard regarding the impairment of long-lived assets. Under the new standard, an impairment must be recorded when the carrying amount of a long-lived asset is no longer recoverable and exceeds its fair market value. The adoption of this standard did not have an impact on the consolidated financial statements.

Asset retirement obligations

Effective January 1, 2004, the Fund adopted the new accounting standard regarding asset retirement obligations. Under the new standard, liabilities related to the legal obligations associated with the retirement of tangible long-lived assets are capitalized as part of the carrying amount of the long-lived asset and amortized over the expected useful life of the asset. The adoption of this standard did not have an impact on the consolidated financial statements.

Foreign currency translation

The financial statements of U.S. subsidiaries, considered self-sustaining, are translated in accordance with the current rate method, under which assets and liabilities are translated at the currency exchange rate in effect at the balance sheet date and earnings statement items are translated at the average currency exchange rate for the period. Translation adjustments arising from currency exchange rate fluctuations, including those related to long-term debt denominated in U.S. dollars and designated as a hedge of net investments in self-sustaining foreign operations, are shown as cumulative translation adjustment under unitholders' equity until realized, at which time they are transferred to income.

Other monetary assets and liabilities denominated in U.S. dollars have been translated into Canadian dollars at the rate of exchange at the balance sheet date. Gains and losses from translation are recognized in income in the period they occur.

Revenue recognition

Revenue is recognized when packaged ice and other products are delivered to and accepted by customers. There is no right of return with respect to such products.

Revenue resulting from leased equipment is recognized as earned under contract terms.

Royalty fees from franchisees and licensees are recognized when the products are purchased from a third party by the franchisee or distributor, and franchise application fees are recognized when substantial performance has occurred.

Unit-based compensation

The Fund has an incentive stock option plan and can provide compensation to certain trustees, directors, officers and employees in the form of options to acquire Fund units. Option grants are expensed over the vesting period of the options using a fair-value-based method of accounting with a corresponding credit to contributed surplus.

Income taxes

The Fund is a mutual fund trust as defined under the *Income Tax Act* and accordingly, is not subject to taxation on its income to the extent that its income is distributed to its unitholders. Substantially all taxable income will be allocated to unitholders. Accordingly, under current Canadian income tax legislation, no provision for income taxes is required for the Fund. The tax basis of the Fund's assets exceed its carrying value at December 31, 2005 by $5,560 (2004 - $5,475).

The Fund's subsidiaries are subject to tax and follow the asset and liability method for accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Earnings per unit

Basic earnings per unit is computed by dividing net earnings by the weighted average units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted average number of units outstanding during the period, plus the effect of dilutive unit equivalents such as options. The diluted per unit amounts are calculated using the treasury stock method, as if all the unit equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting period, or the period of issue, as the case may be, and that the funds obtained thereby were used to purchase units of the Fund at the average trading price of the units during the period.

Hedging relationships

The Fund uses foreign exchange options to mitigate its exposure to fluctuations in foreign exchange rates. Effective January 1, 2004, the Fund adopted the new Canadian accounting guideline for hedging relationships. This guideline addresses the identification, designation, documentation and effectiveness of hedging relationships for purposes of applying hedge accounting. Under the new guideline, any hedging transactions that do not qualify for hedge accounting must be marked to market at each period end with any resulting gains or losses recorded in earnings.

The Fund's foreign exchange options do not qualify for hedge accounting and were marked to market at December 31. Consequently, the Fund has recorded an asset of $nil (2004 - $200) on the consolidated balance sheet included in prepaid expenses and a realized gain of $63 (2004 - $1,035) and an unrealized loss of $200 (2004 - gain of $200) included in earnings.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the period. Actual results could differ from those estimates and assumptions.

3. BUSINESS ACQUISITIONS

In March 2004, a subsidiary of the Fund acquired certain assets and operations of A.T. Reynolds & Sons, Inc., which operated an ice manufacturing and distribution business in New York, for aggregate consideration of $8,803 (U.S. $6,627). In addition, the Fund incurred acquisition and restructuring costs of $1,252 related to professional fees and other costs associated with the purchase of these assets and operations.

In July 2004, a subsidiary of the Fund acquired the assets and operations of Anytime Ice Company and a subsidiary, which operated an ice manufacturing and distribution business in southern Minnesota for aggregate consideration of $2,093 (U.S. $1,574). In addition, the Fund incurred acquisition costs of $127 related to professional fees and other costs associated with the purchase of these assets and operations.

In December 2004, a subsidiary of the Fund acquired the assets and operations of five companies known as the Losquadro Ice Group, which operated ice manufacturing and distribution businesses in New York City and northern New Jersey, for aggregate consideration of $12,333 (U.S. $10,260) including $962 (U.S. $800) of deferred consideration that was to have been paid over a five year period. In addition, the Fund incurred acquisition costs of $1,825 related to professional fees and other costs associated with the purchase of these assets and operations. Under the terms of the purchase agreement, the Fund has an obligation to acquire the land and buildings, currently leased from the sellers and utilized by the acquired operations, in May 2007 at a purchase price of U.S. $3,500 if average qualifying sales of the acquired operations for the two year period ended December 31, 2006 exceeds a specified level. If average qualifying sales do not exceed a specified level, the Fund has the option to purchase the land and buildings at fair market value at the time of exercise. Certain terms of the purchase agreement were amended in 2005, replacing certain contingent consideration obligations with non-contingent consideration as disclosed in note 7.

In December 2004, a subsidiary of the Fund acquired 100% of the common stock of four companies and the assets and operations of seven companies known as the Party Time Ice Group of Port Huron, Michigan, which operated ice manufacturing and distribution businesses in Michigan, for aggregate consideration of $37,703 (U.S. $31,367) including $721 (U.S. $600) of deferred consideration that will be paid over a five year period. In addition, the Fund incurred acquisition and restructuring costs of $1,987 related to professional fees and other costs associated with the purchase of these businesses. Under the terms of the purchase agreements, the sellers are entitled to receive additional cash consideration of between $nil and U.S. $3,000, contingent on performance if average earnings before income taxes, interest and amortization for the acquired operations for the two year period ended December 31, 2006 or the one year period ended December 31, 2007 exceed a specified level.

In September 2005, a subsidiary of the Fund acquired certain of the ice division assets and operations of Hometown Inc., which operated an ice manufacturing and distribution business in Wisconsin, for aggregate consideration of $7,355 (U.S. $6,296). In addition, the Fund has incurred acquisition and restructuring costs of $1,101 related to professional fees and other costs associated with the purchase of these assets and operations.

(amounts in thousands, except per unit amounts)

These transactions have been accounted for by the purchase method and the results of operations are included in the Fund's accounts from the dates of acquisition. Details of the acquisitions for the year ended December 31 are as follows:

	Hometown	2005
Net assets acquired, at fair value:		
Current assets	$ 1,344	**$ 1,344**
Property, plant and equipment	4,786	**4,786**
Intangibles	2,157	**2,157**
Goodwill	213	**213**
	8,500	**8,500**
Less current liabilities	44	**44**
	$ 8,456	$ **8,456**
Purchase consideration:		
Cash	$ 7,355	$ **7,355**
Acquisition and restructuring costs	1,101	**1,101**
	$ 8,456	$ **8,456**

	Reynolds	Anytime	Losquadro	Party Time	2004
Net assets acquired, at fair value:					
Current assets	$ 252	$ 108	$ 1,069	$ 1,970	$ 3,399
Property, plant and equipment	1,608	1,321	4,748	23,913	31,590
Future income tax asset	–	–	385	–	385
Intangibles	5,841	637	6,897	11,252	24,627
Goodwill	2,402	159	1,780	10,305	14,646
	10,103	2,225	14,879	47,440	74,647
Less current liabilities	48	5	721	513	1,287
Less future income taxes	–	–	–	7,237	7,237
	$ 10,055	$ 2,220	$ 14,158	$ 39,690	$ 66,123
Purchase consideration:					
Cash	$ 8,803	$ 2,093	$ 11,371	$ 36,982	$ 59,249
Deferred consideration	–	–	962	721	1,683
Acquisition and restructuring costs	1,252	127	1,825	1,987	5,191
	$ 10,055	$ 2,220	$ 14,158	$ 39,690	$ 66,123

(amounts in thousands, except per unit amounts)

4. PROPERTY, PLANT AND EQUIPMENT

			2005
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	**$ 4,578**	**$ –**	**$ 4,578**
Buildings	**30,238**	**5,577**	**24,661**
Machinery and equipment	**67,147**	**17,928**	**49,219**
Merchandisers	**50,576**	**17,362**	**33,214**
Vehicles	**14,187**	**10,306**	**3,881**
Computer and office equipment	**9,728**	**6,061**	**3,667**
Leasehold improvements	**1,796**	**1,169**	**627**
	$ 178,250	**$ 58,403**	**$ 119,847**

			2004
	Cost	Accumulated Amortization	Net Book Value
Land	$ 4,625	$ –	$ 4,625
Buildings	27,796	4,280	23,516
Construction in progress	1,073	–	1,073
Machinery and equipment and equipment under capital leases	61,326	13,605	47,721
Merchandisers	47,404	13,576	33,828
Vehicles and vehicles under capital leases	15,217	9,778	5,439
Computer and office equipment	8,314	4,576	3,738
Leasehold improvements	1,793	1,016	777
	$ 167,548	$ 46,831	$ 120,717

Amortization in respect of property, plant and equipment for the year ended December 31, 2005 amounted to $14,462 (2004 - $9,993).

(amounts in thousands, except per unit amounts)

5. OTHER ASSETS

			2005
	Cost	Accumulated Amortization	Net Book Value
Deferred financing costs	$ 2,741	$ 714	$ 2,027
Deferred development costs	1,514	1,166	348
Other	640	301	339
	$ 4,895	$ 2,181	$ 2,714

			2004
	Cost	Accumulated Amortization	Net Book Value
Deferred financing costs	$ 2,540	$ –	$ 2,540
Deferred development costs	1,517	866	651
Other	1,036	488	548
	$ 5,093	$ 1,354	$ 3,739

The aggregate amortization expense for other assets for the year ended December 31, 2005 totaled $1,258 (2004 - $1,020). This amount is comprised of amortization of deferred financing costs of $739 (2004 - $532), deferred development costs of $303 (2004 - $305) and other assets of $216 (2004 - $183).

6. INTANGIBLES

			2005
	Cost	Accumulated Amortization	Net Book Value
Trademark	$ 1,378	$ –	$ 1,378
Trade names with finite lives	349	186	163
Non-competition agreements	5,555	1,649	3,906
Customer relationships	20,617	1,282	19,335
	$ 27,899	$ 3,117	$ 24,782

			2004
	Cost	Accumulated Amortization	Net Book Value
Trademark	$ 1,375	$ –	$ 1,375
Trade names with finite lives	549	200	349
Non-competition agreements	5,741	602	5,139
Customer relationships	19,149	317	18,832
	$ 26,814	$ 1,119	$ 25,695

The aggregate amortization expense for intangibles for the year ended December 31, 2005 totaled $2,369 (2004 - $1,031). This amount is comprised of amortization of trade names with finite lives of $181 (2004 - $200), non-competition agreements of $1,173 (2004 - $514) and customer relationships of $1,015 (2004 - $317)

(amounts in thousands, except per unit amounts)

7. GOODWILL

The changes in the carrying amount of goodwill are as follows:

	2005	2004
Balance, beginning of year	$ 106,150	$ 97,341
Acquisitions (note 3)	213	14,842
Finalization of contingent consideration	3,369	–
Effects of foreign exchange	(2,833)	(6,033)
Balance, end of year	$ 106,899	$ 106,150

Certain terms of the purchase agreement related to the acquisition of the assets and operations of the five companies known as the Losquadro Ice Group were amended in 2005 (note 3), replacing certain contingent consideration obligations with non-contingent consideration. Under the terms of the amended purchase agreement, the sellers are entitled to receive additional consideration totaling U.S. $2,900, comprised of U.S. $1,450 payable on each of April 30, 2006 and April 30, 2007. The future obligation has been recorded as an addition to goodwill and is included in long-term debt.

8. LONG-TERM DEBT

	2005	2004
U.S. $60 million 5.35% notes, due January 1, 2010	$ 69,780	$ 72,120
Revolving term credit facility	–	38,339
Deferred acquisition consideration	4,735	2,303
Other loans	–	4
	74,515	112,766
Less principal included in current liabilities	2,086	514
	$ 72,429	$ 112,252

On December 9, 2004, the Fund's subsidiaries completed the issuance of U.S. $60,000 of senior secured notes due January 1, 2010 in connection with a private placement offering. The notes, denominated in U.S. dollars, carry a fixed annual interest rate of 5.35% payable monthly, with the principal due upon maturity. The proceeds of these notes were used to fund the Losquadro and Party Time acquisitions and to reduce amounts outstanding on the revolving term credit facility. In connection with the issuance of the senior secured notes, financing costs of $1,117 were incurred that are being amortized over the five year term of the notes.

Concurrent with this, the terms of the revolving term credit facility were amended and restated by the syndicate of lenders. The facility is revolving to a maximum commitment of $39,600, can be drawn in either Canadian or U.S. dollars, bears interest at a floating rate, which averaged 6.2% for 2005 (2004 - 3.1%), and does not require scheduled principal repayments prior to maturity. During the year, the lenders extended the maturity date of the facility to January 1, 2009. The Fund also has a $12,000 operating line of credit. In connection with the amendment and restatement of this facility, financing costs of $1,423 were incurred that are being amortized over the remaining term of the facility. The balance outstanding on the credit facility at December 31, 2005 is $nil (2004 - $38,339) including $nil (2004 - $4,682) repayable in Canadian funds and U.S. $nil (2004 - U.S. $28,000) repayable in U.S. funds.

The senior secured notes and the revolving term credit facility are jointly collateralized on a pari passu basis, and are secured by debentures issued by the Fund's subsidiaries together with other security agreements providing both a fixed and floating charge over all of the assets and undertakings of the Fund and its subsidiaries.

The Fund's subsidiaries have various unsecured loans and notes payable outstanding of $4,735 at December 31, 2005 (2004 - $2,307) that come due on various dates to December 30, 2009. These loans and notes payable are non-interest bearing and have been discounted at a weighted average rate of 8% (2004 - 8%).

Principal repayments until maturity are as follows:

2006	$ 2,086
2007	2,086
2008	331
2009	232
2010	69,780
	$ 74,515

(amounts in thousands, except per unit amounts)

9. CAPITAL CONTRIBUTIONS

Authorized

The Fund may issue an unlimited number of units pursuant to the Declaration of Trust. Each unit represents an equal fractional undivided beneficial interest in any distributions from the Fund, and in the net assets in the event of termination or wind-up of the Fund. All units are of the same class with equal rights and privileges.

Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the Declaration of Trust, subject to a maximum of $50 in cash redemptions by the Fund in any one month. Redemptions in excess of this amount will be paid by way of a distribution of a pro rata number of shares and notes of Arctic Glacier Inc. held by the Fund.

Issued

Fund units are included in unitholders' capital contributions on the consolidated balance sheet as follows:

	Number of Units		Amount
Balance at December 31, 2003	23,275.1	$	200,905
Units issued for cash consideration in 2004 under Distribution Reinvestment and Optional Cash Purchase Plan	74.9		816
Balance at December 31, 2004	23,350.0		201,721
Units issued for cash consideration on September 20, 2005, at $11.25 per unit, net of issue costs of $2,982	4,450.0		47,081
Units issued for cash consideration in 2005 under Distribution Reinvestment and Optional Cash Purchase Plan	87.7		945
Balance at December 31, 2005	**27,887.7**	**$**	**249,747**

The Fund's Distribution Reinvestment and Optional Cash Purchase Plan allows unitholders to reinvest their distributions in exchange for Fund units at a discount of 5% below the 10 day trailing average market price. Participants may also make an optional cash purchase of Fund units of not less than $1,000 per distribution date and not more than $12,000 per calendar year at the 10 day trailing average market price.

Options

The trustees of the Fund may grant options to acquire Fund units to trustees, officers, consultants and employees of the Fund under the terms of the incentive stock option plan at an exercise price not less than the closing market price of the units on the last business day before the grant date. As well, the exercise price must not be less than the weighted average trading price of the units for the five trading days preceding the grant date. The options vest over periods determined by the trustees and expire over periods not to exceed ten years.

A summary of the stock option plan is as follows:

	2005			2004		
	Units		**Weighted Average Exercise Price**	Units		Weighted Average Exercise Price
Balance, beginning of year	**840.0**	**$**	**11.50**	–	$	–
Granted	**1,535.0**		**11.12**	840.0		11.50
Expired	**(25.0)**		**11.58**	–		–
Balance, end of year	**2,350.0**	**$**	**11.25**	840.0	$	11.50
Exercisable, end of year	**1,117.5**	**$**	**11.61**	420.0	$	11.50
Weighted average fair value per unit of options granted during the year		**$**	**0.41**		$	0.47

(amounts in thousands, except per unit amounts)

The range of exercise prices for options outstanding at December 31, 2005 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$ 10.60	**935.0**	**4.7 years**	**$ 10.60**	**–**	**$ –**
11.50	**820.0**	**3.3 years**	**11.50**	**820.0**	**11.50**
11.92	**595.0**	**4.1 years**	**11.92**	**297.5**	**11.92**
	2,350.0	**4.1 years**	**$ 11.25**	**1,117.5**	**$ 11.61**

The compensation expense related to options granted under the stock option plan totaled $389 for the year ended December 31, 2005 (2004 - $334). The compensation expense was determined based on the fair value of the options at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Expected option life	**5 years**	5 years
Risk-free interest rate	**3.8%**	3.7%
Distribution yield	**9.9%**	9.3%
Expected volatility	**18.0%**	18.0%

Unitholder Rights Plan

The Fund has a Unitholder Rights Plan, the primary objective of which is to provide the trustees of the Fund with sufficient time to explore and develop alternatives for maximizing unitholder value if any takeover bid is made for the Fund and to provide every unitholder with an equal opportunity to participate in such a bid. The Unitholder Rights Plan encourages a potential acquirer to proceed either by way of a permitted bid, which requires a takeover bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the trustees.

10. CONTRIBUTED SURPLUS

The changes in the carrying amount of contributed surplus are as follows:

	2005	2004
Balance, beginning of year	**$ 334**	$ –
Unit based compensation expense	**389**	334
Balance, end of year	**$ 723**	$ 334

(amounts in thousands, except per unit amounts)

11. CUMULATIVE DISTRIBUTIONS

The Fund intends to make distributions of its available cash to the maximum extent possible to its unitholders. The Fund intends to make equal monthly cash distributions to unitholders on the last day of each month, after deducting estimated cash amounts required for expenses, other obligations of the Fund, cash redemptions of units and any tax liabilities.

Cash distributions are payable monthly to the unitholders of record on the last business day of each month and are paid within 15 days following the end of each month. Cumulative distributions to December 31 are as follows:

	2005	2004
Balance, beginning of year	$ 57,462	$ 32,505
Distributions	27,262	24,957
Balance, end of year	$ 84,724	$ 57,462

Distributions are made monthly to unitholders of record on the last business day of each month. Distributions during 2005 were as follows:

			Distributions	
Month	Record Date	Payment Date	Per Unit	Amount
January 2005	January 31, 2005	February 15, 2005	$ 0.0892	$ 2,083
February 2005	February 28, 2005	March 15, 2005	0.0892	2,084
March 2005	March 31, 2005	April 15, 2005	0.0917	2,143
April 2005	April 29, 2005	May 13, 2005	0.0917	2,144
May 2005	May 31, 2005	June 15, 2005	0.0917	2,145
June 2005	June 30, 2005	July 15, 2005	0.0917	2,145
July 2005	July 29, 2005	August 15, 2005	0.0917	2,146
August 2005	August 31, 2005	September 15, 2005	0.0917	2,147
September 2005	September 30, 2005	October 14, 2005	0.0917	2,555
October 2005	October 31, 2005	November 15, 2005	0.0917	2,556
November 2005	November 30, 2005	December 15, 2005	0.0917	2,557
December 2005	December 30, 2005	January 13, 2006	0.0917	2,557
2005 Total			**$ 1.0954**	**$ 27,262**

12. INTEREST

Interest expense is comprised of the following:

	2005	2004
Interest incurred on:		
Long-term debt including additional charges	$ 6,562	$ 1,712
Operating line of credit	345	57
Capital lease obligations	–	15
	$ 6,907	$ 1,784

(amounts in thousands, except per unit amounts)

13. GAIN (LOSS) ON FOREIGN EXCHANGE

The Fund uses foreign exchange options to manage the risk associated with fluctuations in the value of the Canadian dollar relative to the U.S. dollar in the normal course of business. The loss on foreign exchange options for the year ended December 31, 2005 totaled $137 (2004 - $1,235 gain). This amount is comprised of realized gains of $63 (2004 - $1,035) on the exercise of foreign exchange options contracts, and unrealized losses of $200 (2004 - $200 gain) resulting from the reversal of the non-cash mark-to-market adjustment of contracts outstanding at the beginning of the year.

Foreign exchange losses totaling $69 were realized on foreign currency transactions during the year ended December 31, 2005 (2004 - $1,326 gain) and are included in cost of sales, selling, general and administrative expenses.

The reduction in the cumulative translation adjustment for the year ended December 31, 2005 of $nil (2004 - $585) is a non-cash adjustment, which relates to the reduction of the Fund's investment in the subordinated long-term notes held in its self-sustaining U.S. subsidiaries as a result of a principal repayment in 2004. As a result of the reduction of the Fund's net investment in its self-sustaining U.S. subsidiaries, a proportionate share of the cumulative translation adjustment balance has been recognized in earnings.

14. DEBT SETTLEMENT COSTS

The amendment and restatement of the terms of the revolving term credit facility on December 9, 2004 is deemed a settlement of the original credit facility resulting in the write-off of deferred financing costs related to this facility for the year ended December 31, 2005 in the amount of $nil (2004 - $518).

15. INCOME TAXES

(a) Components of income tax provision

The provision for income taxes is comprised of the following:

		2005		2004
Canada:				
Current income taxes	$	227	$	971
Future income taxes (reduction)		37		(1,140)
		264		(169)
United States:				
Current income taxes		344		571
Future income taxes reduction		(2,237)		(644)
		(1,893)		(73)
Total	$	(1,629)	$	(242)

(amounts in thousands, except per unit amounts)

(b) Reconciliation to statutory rate

The overall income tax provision differs from the amount that would be obtained by applying the combined statutory income tax rate to earnings due to the following:

		2005		2004
Net earnings before income taxes	$	**14,336**	$	14,059
Combined Canadian federal and provincial income tax rate		**35.3%**		35.3%
Income tax expense based on statutory income tax rate	$	**5,061**	$	4,963
Increase (decrease) resulting from:				
Net earnings of the Fund subject to tax in the hands of unitholders		**(6,880)**		(6,341)
Capital and state taxes		**321**		733
Foreign withholding taxes		**–**		458
Effect of change in valuation allowance		**–**		25
Effect of difference in tax rates on U.S. income		**(309)**		(111)
Other		**178**		31
Income tax expense reduction	$	**(1,629)**	$	(242)

(c) Future income tax liability

Significant components of the net future income tax liability are as follows:

		2005		2004
Future income tax assets:				
Non-capital loss carry-forwards	$	**19,711**	$	14,495
Restructuring charges		**545**		921
Other temporary differences		**645**		947
		20,901		16,363
Valuation allowance		**(732)**		(874)
		20,169		15,489
Future income tax liabilities: Property, plant and equipment and other assets		**(28,089)**		(25,915)
Net future income tax liability	$	**(7,920)**	$	(10,426)

16. EARNINGS PER UNIT

The computation for basic and diluted earnings per unit is as follows:

		2005		2004
Earnings and diluted earnings available to unitholders	$	**15,965**	$	14,301
Basic weighted average number of units		**24,650.0**		23,311.9
Dilutive effect of options		**–**		11.0
Diluted weighted average number of units		**24,650.0**		23,322.9
Earnings per unit:				
Basic	$	**0.65**	$	0.61
Diluted	$	**0.65**	$	0.61

(amounts in thousands, except per unit amounts)

17. CHANGES IN WORKING CAPITAL ITEMS

		2005		2004
Accounts receivable	$	**422**	$	(346)
Inventories		**136**		(1,282)
Prepaid expenses		**(389)**		474
Accounts payable and accrued liabilities		**(3,100)**		2,672
	$	**(2,931)**	$	1,518

18. SEGMENTED INFORMATION

The Fund has determined that it operates in one business segment, the manufacturing and distribution of packaged ice and other products. The Fund and its subsidiaries operate in Canada and the United States.

The following presents key information by geographic segment:

						2005
		Canada		**U.S.**		**Total**
Total sales	$	**41,428**	$	**115,011**	$	**156,439**
Cost of sales, selling, general and administration expenses		**31,795**		**83,631**		**115,426**
	$	**9,633**	$	**31,380**	$	**41,013**
Earnings (loss)	$	**19,424**	$	**(3,459)**	$	**15,965**
Total assets	$	**64,502**	$	**213,015**	$	**277,517**

						2004
		Canada		U.S.		Total
Total sales	$	36,074	$	78,360	$	114,434
Cost of sales, selling, general and administration expenses		28,477		57,907		86,384
	$	7,597	$	20,453	$	28,050
Earnings (loss)	$	16,272	$	(1,971)	$	14,301
Total assets	$	74,367	$	212,675	$	287,042

19. EMPLOYEE BENEFIT PLANS

The Fund sponsors a voluntary 401(k) retirement savings plan for certain eligible U.S. employees and introduced a voluntary deferred profit sharing plan in 2005 for certain eligible Canadian employees. The Fund may elect on an annual basis to make contributions to these savings plans. The expense related to the Fund's contributions to these plans for the year ended December 31, 2005 totaled $763 (2004 - $581).

(amounts in thousands, except per unit amounts)

20. COMMITMENTS

The Fund's subsidiaries rent premises and equipment under long-term operating leases. The following is a schedule by year of rental payments required under operating leases outstanding at December 31, 2005:

2006	$	**4,416**
2007		**2,918**
2008		**2,470**
2009		**1,989**
2010		**1,482**
2011 and thereafter		**2,328**
Total	$	**15,603**

21. CONTINGENCIES

Certain litigation arising in the normal course of business is pending against the Fund and its subsidiaries. While the final outcome with respect to actions outstanding or pending as at December 31, 2005 cannot be predicted with certainty, the Fund is of the opinion that the resolution of such litigation will not have a significant effect on the consolidated financial statements of the Fund and its subsidiaries.

22. FINANCIAL INSTRUMENTS

Credit risk

The Fund is exposed to credit risk primarily through its accounts receivable. Credit risk on accounts receivable is minimized as a result of the large customer base. The Fund, in its normal course of business, evaluates the financial condition of its customers on a continuous basis and examines credit history for new customers. The Fund establishes a provision for bad debts based on specific customers' credit risk, historical trends and other information on the economic situation. The Fund believes that its customers are not exposed to a credit risk level higher than normal.

Fair value of financial instruments

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities and distributions payable to unitholders approximates their fair value, since these items fall due in the short-term.

The fair value of the Fund's long-term debt was $70,948 compared to a carrying value of $74,515. Fair value has been calculated using the future cash flows (principal and interest) of the actual outstanding debt instruments, discounted at current market rates available to the Fund for the same or similar instruments.

HISTORICAL Financial Information

HISTORICAL Financial Information

Year ended December 31, except as noted

(in thousands of dollars, except per unit data)	**2005**	2004	2003	2002	2001	2000	1999	1998[1]	1998[2]	1997[2]
OPERATING RESULTS										
Sales	**156,439**	114,434	97,170	91,719	91,388	82,114	74,257	41,508	9,574	5,345
EBITDA	**41,013**	28,050	24,462	25,004	25,053	21,608	19,015	9,922	423	1,031
Earnings (loss)	**15,965**	14,301	10,764	9,227	(4,818)	(2,885)	(949)	1,857	(1,016)	218
Basic earnings (loss) per unit	**0.65**	0.61	0.59	0.67	(0.84)	(0.52)	(0.20)	0.45	(0.44)	0.13
Diluted earnings (loss) per unit	**0.65**	0.61	0.59	0.66	(0.84)	(0.52)	(0.20)	0.29	(0.44)	0.13
CASH FLOW										
Funds from (used in) operations	**32,498**	25,512	20,962	17,249	11,904	9,575	8,544	6,640	(366)	860
Distributions to unitholders	**27,262**	24,957	19,744	12,761	–	–	–	–	–	–
Distributions to unitholders per unit	**1.10**	1.07	1.07	0.82	–	–	–	–	–	–
FINANCIAL POSITION										
Net cash [3]	**6,313**	14,755	11,032	11,919	1,946	(208)	4,882	4,438	4,118	952
Current assets	**23,275**	30,741	23,177	22,223	15,612	15,286	15,019	10,830	7,042	1,488
Working capital	**9,363**	15,781	12,105	15,122	5,518	(1,340)	5,529	(814)	4,164	556
Total assets	**277,517**	287,042	214,657	182,938	187,097	188,312	170,674	129,443	36,157	4,947
Long-term debt [4]	**74,515**	112,804	32,045	54,322	123,284	120,766	104,547	63,007	15,005	1,908
Net debt [5]	**68,202**	98,049	21,013	42,403	121,338	120,974	99,665	58,569	10,887	957
Unitholders' equity	**183,256**	149,404	166,469	117,618	49,500	52,719	53,825	51,739	18,731	2,236
Units outstanding (000's)										
End of year	**27,888**	23,350	23,275	15,660	6,043	6,043	6,036	5,763	3,167	2,111
Weighted average (basic)	**24,650**	23,312	18,173	13,532	6,043	6,038	5,991	3,718	2,496	1,683

(in thousands of dollars, except per unit data)				2005				2004				2003
	Q1	**Q2**	**Q3**	**Q4**	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OPERATING RESULTS												
Sales	**13,809**	**47,275**	**73,584**	**21,771**	11,222	36,088	50,640	16,484	7,596	25,615	48,219	15,740
EBITDA	**(5,089)**	**15,086**	**31,567**	**(551)**	(4,123)	10,553	20,197	1,423	(3,621)	8,317	20,413	(647)
Earnings (loss)	**(5,707)**	**6,332**	**17,149**	**(1,809)**	(3,054)	5,574	11,566	215	(3,358)	4,059	11,351	(1,288)
Basic earnings (loss) per unit	**(0.24)**	**0.27**	**0.72**	**(0.06)**	(0.13)	0.24	0.50	0.01	(0.21)	0.26	0.62	(0.06)
Diluted earnings (loss) per unit	**(0.24)**	**0.27**	**0.72**	**(0.06)**	(0.13)	0.24	0.50	0.01	(0.21)	0.26	0.62	(0.06)
CASH FLOW												
Funds from (used in) operations	**(6,820)**	**12,625**	**29,238**	**(2,545)**	(4,764)	9,507	19,815	954	(4,232)	7,817	18,734	(1,357)
Distributions to unitholders	**6,310**	**6,434**	**6,848**	**7,670**	6,232	6,236	6,241	6,248	4,191	4,427	4,899	6,227
Distributions to unitholders per unit	**0.27**	**0.28**	**0.28**	**0.28**	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27
FINANCIAL POSITION												
Net cash [3]	**(3,378)**	**(9,133)**	**10,351**	**6,313**	4,132	475	11,900	14,755	2,622	3,352	13,055	11,032
Current assets	**16,975**	**32,054**	**38,555**	**23,275**	17,117	25,126	32,025	30,741	12,260	22,946	34,044	23,177
Working capital	**649**	**2,523**	**22,849**	**9,363**	6,209	11,345	22,055	15,781	5,144	11,577	22,652	12,105
Total assets	**274,595**	**291,954**	**292,695**	**277,517**	219,619	231,258	233,571	287,042	165,522	172,482	214,123	214,657
Long-term debt [4]	**115,660**	**116,937**	**71,620**	**74,515**	49,275	55,016	55,962	112,804	51,573	34,070	62,557	32,045
Net debt [5]	**119,038**	**126,070**	**61,269**	**68,202**	45,143	54,541	44,062	98,049	48,951	30,718	49,502	21,013
Unitholders' equity	**138,549**	**139,863**	**192,409**	**183,256**	158,693	160,302	160,312	149,404	106,157	124,920	131,590	166,469
UNIT DATA												
Trading price range, per unit:												
High	**$ 12.25**	**$ 12.00**	**$ 12.14**	**$ 11.25**	$ 12.20	$ 12.29	$ 12.42	$ 12.06	$ 9.59	$ 9.98	$ 10.65	$ 10.68
Low	**$ 11.50**	**$ 10.80**	**$ 10.15**	**$ 9.05**	$ 10.40	$ 10.50	$ 11.26	$ 10.61	$ 8.50	$ 9.33	$ 9.50	$ 9.55
Close	**$ 11.65**	**$ 10.95**	**$ 10.98**	**$ 10.80**	$ 12.15	$ 11.74	$ 11.95	$ 12.00	$ 9.50	$ 9.59	$ 9.95	$ 10.50
Trading volumes (000s)	**2,619**	**2,325**	**3,441**	**3,974**	2,087	1,430	1,703	2,704	960	1,875	1,606	2,894
Cumulative Trading Volume (000s)	**2,619**	**4,944**	**8,385**	**12,359**	2,087	3,517	5,220	7,924	960	2,835	4,441	7,335
Units outstanding (000s):												
End of period	**23,369**	**23,395**	**27,865**	**27,888**	23,292	23,311	23,331	23,350	15,660	18,310	18,310	23,275
Weighted average (basic)	**23,360**	**23,384**	**23,937**	**27,878**	23,284	23,302	23,321	23,341	15,660	15,805	18,310	22,837

(1) Eight months.

(2) Year ended April 30.

(3) Cash and cash equivalents, net of bank indebtedness.

(4) Includes obligations under capital leases.

(5) Long-term debt and bank indebtedness, net of cash and cash equivalents.

OFFICERS

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Keith W. McMahon, CA
Executive Vice President & Chief Financial Officer

Hugh A. Adams
Corporate Secretary

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Toronto Stock Exchange
Arctic Glacier Income Fund AG.UN
CUSIP Number 039 675

ANNUAL GENERAL MEETING

Thursday, April 27, 2006
4:00 p.m. C.D.T.

The Fairmont Winnipeg
2 Lombard Place
Winnipeg, Manitoba

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